FEDERAL TAX RULES APPLICABLE TO TAX-EXEMPT ORGANIZATIONS INVOLVING TELEVISION MINISTRIES

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

OCTOBER 6, 1987

Serial 100-43

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE
82-328 WASHINGTON : 1988

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H781-33

COMMITTEE ON WAYS AND MEANS

DAN ROSTENKOWSKI, Illinois, *Chairman*

SAM M. GIBBONS, Florida
J.J. PICKLE, Texas
CHARLES B. RANGEL, New York
FORTNEY H. (PETE) STARK, California
ANDY JACOBS, Jr., Indiana
HAROLD FORD, Tennessee
ED JENKINS, Georgia
RICHARD A. GEPHARDT, Missouri
THOMAS J. DOWNEY, New York
FRANK J. GUARINI, New Jersey
MARTY RUSSO, Illinois
DON J. PEASE, Ohio
ROBERT T. MATSUI, California
BERYL ANTHONY, Jr., Arkansas
RONNIE G. FLIPPO, Alabama
BYRON L. DORGAN, North Dakota
BARBARA B. KENNELLY, Connecticut
BRIAN J. DONNELLY, Massachusetts
WILLIAM J. COYNE, Pennsylvania
MICHAEL A. ANDREWS, Texas
SANDER M. LEVIN, Michigan
JIM MOODY, Wisconsin

JOHN J. DUNCAN, Tennessee
BILL ARCHER, Texas
GUY VANDER JAGT, Michigan
PHILIP M. CRANE, Illinois
BILL FRENZEL, Minnesota
DICK SCHULZE, Pennsylvania
BILL GRADISON, Ohio
WILLIAM M. THOMAS, California
RAYMOND J. McGRATH, New York
HAL DAUB, Nebraska
JUDD GREGG, New Hampshire
HANK BROWN, Colorado
ROD CHANDLER, Washington

ROBERT J. LEONARD, *Chief Counsel*
M. KENNETH BOWLER, *Staff Director*
A.L. SINGLETON, *Minority Chief of Staff*

SUBCOMMITTEE ON OVERSIGHT

J.J. PICKLE, Texas, *Chairman*

BERYL ANTHONY, Jr., Arkansas
RONNIE G. FLIPPO, Alabama
BYRON L. DORGAN, North Dakota
HAROLD FORD, Tennessee
CHARLES B. RANGEL, New York
ANDY JACOBS, Jr., Indiana

DICK SCHULZE, Pennsylvania
BILL FRENZEL, Minnesota
WILLIAM M. THOMAS, California
RAYMOND J. McGRATH, New York

CONTENTS

Page

Press release announcing the hearing ... 2

WITNESSES

U.S. Department of the Treasury, O. Donaldson Chapoton, Assistant Secretary for Tax Policy ... 9
Internal Revenue Service, Hon. Lawrence B. Gibbs, Jr., Commissioner of Internal Revenue, Michael J. Murphy, Senior Deputy Commissioner, and Robert I. Brauer, Assistant Commissioner for Employee Plans and Exempt Organizations ... 23

Armstrong, Rev. Ben, National Religious Broadcasters ... 199
Ankerberg, Rev. John, John Ankerberg Evangelistic Association ... 76
Coral Ridge Ministries, and Coral Ridge Presbyterian Church, Rev. D. James Kennedy ... 60
Crouch, Rev. Paul F., Trinity Broadcasting Network, Inc ... 184
Egger, Roscoe L., Jr., Price Waterhouse ... 240
Evangelical Council for Financial Accountability, Gordon D. Loux and George R. Grange II ... 206
Fundamentalists Anonymous, Richard Yao and James J.D. Luce ... 216
Falwell, Rev. Jerry, Old-Time Gospel Hour ... 86
Feed the Children, Rev. Larry Jones ... 167
Grange, George R., II, Evangelical Council for Financial Accountability ... 206
John Ankerberg Evangelistic Association, Rev. John Ankerberg and Glenn Stophel ... 76
Jones, James R., Oral Roberts Evangelistic Association ... 147
Jones, Rev. Larry, Larry Jones International Ministries, Inc., and Feed the Children ... 167
Kennedy, Rev. D. James, Coral Ridge Ministries, Coral Ridge Presbyterian Church ... 60
Larry Jones International Ministries, Inc., Rev. Larry Jones ... 167
Loux, Gordon D., Evangelical Council for Financial Accountability ... 206
Luce, James J.D., Fundamentalists Anonymous ... 216
National Religious Broadcasters, Rev. Ben Armstrong ... 199
Old-Time Gospel Hour, Rev. Jerry Falwell ... 86
Oral Roberts Evangelistic Association, Rev. Oral Roberts and James R. Jones .. 147
Sanders, Michael I., Georgetown University, and Ginsburg, Feldman & Bress .. 247
Stophel, Glenn, John Ankerberg Evangelistic Association ... 76
Trinity Broadcasting Network, Inc., Rev. Paul F. Crouch ... 184
Yao, Richard, Fundamentalists Anonymous ... 216

APPENDIX

National Religious Broadcasters, Ben Armstrong, letter ... 273
Coral Ridge Presbyterian Church, D. James Kennedy, letter ... 282
John Ankerberg Show, John Ankerberg, letter ... 283
Jerry Falwell, letter ... 285
Oral Roberts, letter ... 286
Trinity Broadcasting Network, Inc., Paul F. Crouch, letter ... 288
Rev. Jimmy Swaggart, letter ... 290

SUBMISSIONS FOR THE RECORD

Page
Christian Broadcasting Network Inc., Timothy B. Robertson, letter and attachment 291
Crystal Cathedral Congregation, Robert H. Schuller, letter 299
Fundamentalists Anonymous Legal Task Force, Donald H. Chase, statement 313
Graham, Rev. Billy, Billy Graham Evangelistic Association, letter 320
Guinn, James E., Guinn, Smith & Co., Irving, Tex., letter 324
Swaggart, Jimmy, Jimmy Swaggart Ministries, statement and attachment 334
Ternes, John P., Petoskey, Mich., statement 348
Trinity Foundation, Inc., Ole Anthony and John Rutledge, joint statement and attachment 351
Yurica, Katherine, Bellingham, Wash., statement 359

FEDERAL TAX RULES APPLICABLE TO TAX-EXEMPT ORGANIZATIONS INVOLVING TELEVISION MINISTRIES

TUESDAY, OCTOBER 6, 1987

House of Representatives,
Committee on Ways and Means,
Subcommittee on Oversight,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:32 a.m., in room 1100, Longworth House Office Building, Hon. J.J. Pickle (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
MONDAY, SEPTEMBER 14, 1987

PRESS RELEASE #12
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1105 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D. C. 20515
TELEPHONE: (202) 225-5522

THE HONORABLE J. J. PICKLE (D., TEXAS), CHAIRMAN, SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON FEDERAL TAX RULES APPLICABLE TO TAX-EXEMPT ORGANIZATIONS INVOLVING TELEVISION MINISTRIES

The Honorable J. J. Pickle (D., Texas), Chairman of the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, announced today that the Subcommittee will conduct a hearing to review the Federal tax rules applicable to tax-exempt organizations involving television ministries. This hearing will be the third in a series of Subcommittee hearings to review issues involving tax-exempt organizations. The hearing is scheduled for Tuesday, October 6, 1987, beginning at 9:30 a.m., in the Main Committee Hearing room, 1100 Longworth House Office Building.

The Subcommittee will receive testimony from the Department of the Treasury, the Internal Revenue Service (IRS), television ministers and their representatives, evangelical and religious broadcasting associations, and tax experts. The Subcommittee will receive testimony only from invited witnesses. Persons or groups interested in submitting written statments for the record are encouraged to do so.

The Subcommittee hearing will focus on the Federal tax rules applicable to television ministries, and the administration of, and compliance with, such laws. Under present law, a television ministry may be exempt from Federal income tax under Internal Revenue Code section 501(c)(3), and charitable contributions to tax-exempt ministries may be deductible for Federal income, gift, and estate tax purposes. Depending upon its status and activities, an exempt organization may be subject to certain filing requirements, and a tax on any unrelated business income. Further, present law requires that such organizations operate within the general requirements for exemption under Internal Revenue Code sections 501(c) and 170, including the requirement that the organization is formed and operated exclusively for religious, charitable, or educational purposes, the prohibitions on inurement of net earnings (private benefits) to individuals, and on political campaign activities, and the restrictions on lobbying activities. Different IRS examination procedures apply depending on the classification of the organization.

In announcing this hearing, Chairman Pickle stated, "The public contributes millions of dollars each year to television ministries which operate, in full or in part, as tax-exempt organizations. Recent events have raised questions which need to be explored more fully in public. The Subcommittee intends to consider the Internal Revenue Service's administration and enforcement of present Federal tax law, and television ministries' interpretation of, and compliance with, these rules.

"I believe it is important that we examine whether the present-law rules are effective in insuring that tax-deductible donations given to television ministries are being used exclusively for exempt purposes. These are questions which the public deserves to have answered.

"I want to make it clear that the Subcommittee is not undertaking to investigate any specific television ministry or tax-exempt organization. We are not questioning religious practices or beliefs. The Subcommittee will be addressing only those issues relating to the Federal tax rules. Further, the Subcommittee notes that Constitutional issues involving the Federal tax laws that the Subcommittee will be

(MORE)

reviewing have been addressed by the courts. Accordingly, the Subcommittee will not consider any such matters at the hearing, but rather, will focus on the operation of present-law rules."

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Persons submitting written comments for the printed record of the hearing should submit six (6) copies by the close of business, Friday, October 30, 1987, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515.

SEE FORMATTING REQUIREMENTS BELOW:

COMMITTEE ON WAYS AND MEANS FORMATTING REQUIREMENTS FOR PRINTING OF HEARING STATEMENTS, WRITTEN COMMENTS AND EXHIBITS

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing, may be submitted in other forms.

Chairman **Pickle**. The chairman asks the subcommittee to come to order and we ask our guests if they will please take their seats.

We have an important hearing today and the Chair wants to make a preliminary statement. It may be a little longer than normal, but we think it is important that we lay these issues out before us. At the conclusion of my statement, I will ask Congressman Schulze for his opening statement, and then we will proceed.

At the direction of Ways and Means Committee Chairman Dan Rostenkowski, at the beginning of this Congress, the Oversight Subcommittee has been conducting a review of tax laws that apply to tax-exempt organizations.

Two days of hearings were held in March to review the tax provisions that restrict lobbying and political activities of tax-exempt organizations. In June, we held 5 days of hearings on the unrelated business income tax laws.

As a part of this continuing oversight review, today we are holding a one-day hearing on Federal tax laws applicable to tax-exempt organizations involving television ministries.

Now, the purpose of this hearing is to review enforcement and compliance with the Federal Tax Code. That is it, pure and simple.

Because the subject of today's hearing involves religious organizations, this is perhaps the most sensitive issue that our subcommittee has ever dealt with.

Judging by the comments I have received from the public, there seems to be a lot of misunderstanding about the purpose of this hearing and the role of this subcommittee. Some people have been led to believe that we intend to revoke the tax-exempt status of certain organizations or that we are attempting to remove certain religious broadcasts from television.

Nothing could be further from the truth. In fact, this subcommittee does not have the authority to change the tax status of any organization and we certainly do not have the power to determine what will or will not be broadcast. Furthermore, we are not investigating any organization or group of organizations.

The Oversight Subcommittee has the responsibility for monitoring all of the laws and Federal agency actions that fall within the jurisdiction of the Ways and Means Committee.

The law—the law that is currently on the books—requires that churches and religious organizations operate properly as tax-exempt organizations. Churches and other religious organizations, and this includes television ministries, must comply with rules prohibiting private inurement, prohibiting political activities, and restricting the amount of lobbying activities. The laws say that these organizations must operate exclusively for charitable purposes and that they must pay tax on certain unrelated business income. Now, that is the law and it is the law that many of us and the public have some question about.

Today we are exploring the law as it applies to television ministries to ensure one thing, that tax-deductible contributions are spent only for religious and charitable purposes.

These laws have been reviewed and upheld by the Federal courts, and the courts will continue to review issues involving freedom of religion. Thus, there is no need for us to debate any constitutional issues today.

But this subcommittee does have a very serious responsibility to review our tax laws. In any oversight review, regardless of the issue involved, there are basic questions that need to be answered.

First, we are seeking information: How does the Internal Revenue Service interpret the law? How does the IRS enforce the law? How do people and organizations comply with the law?

Second, we seek recommendations: Should any changes be made in laws, regulations or procedures? Or should no changes be made at all?

Because we are dealing in an area that is very sensitive, we have given long and careful consideration to holding this hearing.

Whenever the government delves into any issue involving religion, we—this committee and the Congress—will proceed very carefully. For that reason, witnesses have been invited, but not required, to be here today to provide us with the information we need and to present their opinions and recommendations to us.

I think Congress and the administration historically have been reluctant to look very closely at tax issues involving religious organizations. And certainly the politically safe and easy course would be to ignore this area of the Tax Code.

But the fact remains that we have Federal laws that affect churches and religious organizations. Congress is responsible for the existence of those laws and the executive branch is responsible for the enforcement of those laws. We just simply cannot ignore that responsibility.

I believe this hearing will serve a very useful purpose and clarify this area of tax law for the public. It will serve to explain to Members of Congress and the public those laws that apply to tax-exempt organizations.

Now, this hearing will also serve to make it clear to both the Internal Revenue Service and to religious organizations that Congress is not going to shy away from this controversial issue and that we expect our laws to be enforced.

We have a limited number of witnesses today and a limited amount of time. Thus, I will ask the witnesses to keep their statements brief. You may summarize and we will include your entire statement in the record. We hope you can keep your answers to the point.

If any of the witnesses would like to submit additional information, it may be submitted to the committee and we will include it in the record. Additionally, we will submit to each one of you questions that we cannot cover in the hearing and we ask that you respond to us in writing as soon as you can.

I am going to also ask that the members of the subcommittee confine their questions to matters of tax policy and not stray into areas outside the jurisdiction of this committee.

Now, that concludes my opening statement and I will call on Congressman Schulze for any statement he has.

Mr. Schulze?

Mr. SCHULZE. Thank you very much, Mr. Chairman.

Mr. Chairman, we recently celebrated the 200th anniversary of the U.S. Constitution. At first glance, someone might be puzzled that a country which values integrity and virtue would prohibit the Government from promoting religious activity. But after 200 years, we can appreciate the wisdom of the Founding Fathers in providing for a separation of church and state and for providing for religious freedom.

Religious activity does more than help some of us develop a better relationship with our Creator. It helps society as a whole by promoting ethical behavior based on moral precepts.

The growth of religious activity is a tribute to the sincere desire of persons to come closer to their Creator. The growth of religious activity also is a tribute to the fact that good things can flourish without Government support or interference.

The moral fabric which makes our Nation strong comes from inside our people; it cannot be imposed from the outside by a Federal or State law. We are a strong Nation, primarily, because of the moral strength of our people, rather than the size of our economy. And our moral strength has its roots in a strong, free religious heritage.

Churches do more than promote spiritual values. They also serve the human needs of the community. Churches reach out to the needy with food, clothes, and shelter. They help the elderly by sponsoring rest homes and adult day care programs. They help the young by providing school clothes and Christmas gifts. And they provide all of these goods and services with an attitude of compassion and understanding. It would cost the Government billions of dollars to provide the same amount of material help, and we probably could never duplicate the level of compassion which church groups provide.

Religious organizations generally operate in harmony with the secular laws. The secular law can achieve its legitimate temporal purposes without any harmful interference with the ability of a religious organization to achieve its spiritual objectives.

The tax law is one secular law which applies to religious organizations. The favorable treatment of religious organizations in the tax law is a testament to the high value which we place on their activities.

Section 501(c)(3) of the Internal Revenue Code grants a tax-exempt status to organizations organized and operated exclusively for religious purposes as long as the net income does not inure to the benefit of a private person. Section 501(c)(3) also prohibits a tax-exempt organization from engaging in any political activity and in any substantial lobbying activity. Finally, the law provides that persons may deduct their contributions to a religious organization on their tax returns.

Just as the average person or small business may find it difficult to fully understand the tax law, so too, a religious organization may find it difficult to fully appreciate all of the tax rules which apply to it. The task facing the religious organization may be even more demanding than the task facing the average person. The average person often can get help by reading a tax tip book from the newsstand or by going to a neighborhood accountant. But the tax laws which apply to churches are even more complex and obscure than the laws which apply to individuals.

My policy is to be sympathetic to the plight of the individual or small business when they must deal with the IRS. I see no reason to change my approach when dealing with a religious organization.

Religious organizations probably deserve an extra measure of latitude because of the extra complexity of the tax laws which apply to them.

The electronic media allow ministers to reach a much wider audience than the traditional neighborhood church. The wider audience magnifies the amount of good which a TV ministry may achieve, but it also magnifies the damage of any shortfalls.

The possible misconduct of a few isolated religious leaders should not overshadow or taint the overwhelming number of organizations which are honest and true. There are persons in many walks of life who stray over some legal line. But I believe that the track record of legal compliance probably is better for religious organizations than it is for most other groups.

Mr. Chairman, responsible ministers had recognized the need to develop a set of financial and ethical guidelines for the TV ministries long before the highly publicized events earlier this year. I will be interested to learn how they are proceeding in developing their long-term recommendations. In addition, I will be interested to learn how they intend to implement the guidelines once they are completed.

Mr. Chairman, I am gratified by the distinguished array of ministers who have agreed to be with us today. I look forward to learning more about how they view their responsibilities under the secular tax law. I also welcome any suggestions they may have on how the tax law may be improved.

I join you in welcoming today's witnesses.

Chairman PICKLE. Thank you, Mr. Schulze.

Does any other member of the committee have any statement to make before we start the hearing?

Mr. McGrath?

Mr. McGRATH. Mr. Chairman, in the spirit of brevity and comity and in an effort not to be redundant, I would ask unanimous consent to insert an opening statement in the record at this point in time.

Chairman PICKLE. It will be so granted.

[The statement of Mr. McGrath follows:]

STATEMENT OF CONGRESSMAN McGRATH

I want to join the chairman and the ranking minority member in welcoming our distinguished witnesses here today.

It is important to keep in mind the purpose of today's hearing, and that the committee has no intention to infringe on anyone's first amendment rights. I think our purpose is three-fold.

First, we would like to review the current law and regulations as they relate to these television ministries.

Second, we will attempt to determine if these organizations are complying with the regulations. Recent press accounts have noted abuses by a small number of tax exempt organizations. For example, we have heard of exhorbitant salaries being drawn which would appear to constitute private inurement. In addition, at least one ministry has admitted to not paying the unrelated business income tax on profits which are unrelated to their exempt purpose.

Third, we need to determine if the IRS is enforcing the law, and if the Service is able to enforce the law based on the information provided on Form 990.

All of the information we receive today will be useful to the Oversight subcommittee in developing recommendations to forward to the full committee.

Chairman PICKLE. Does any other member have any statement?

Mr. Dorgan.

Mr. **Dorgan**. Mr. Chairman, I will be brief, but I want to thank you for calling the hearing and to acknowledge that probably most of us on this subcommittee have received a fair amount of communication once the hearings were announced.

I wanted to say that in my judgment, television evangelism has been one of America's growth industries in the last decade. In addition to using the technology of television to spread the Word of the Lord, evangelists have also discovered that the electronics collection plate can be very lucrative, and that collection of enormous amounts of money provides evangelists not only with substantial opportunities to do good but also serious obligations.

While it is true that the exceptions have gotten most of the attention, it is clear that at least some evangelists have not been able to maintain accountability for the vast sums that they have collected. The stories of million-dollar salaries, million-dollar jets, and houses from Malibu to Miami raise not only eyebrows but also some questions of reporting and accountability.

The question is accountability as the chairman has so appropriately indicated. Some months ago, Jerry Falwell indicated that all television evangelists were going to have to be more forthcoming, they were going to have to offer more information and provide greater accountability. I think that is the question in today's hearing: what kind of accountability is now required, what kind of information is required, is information sufficient now, is it available to allow those to whom the appeal for funds is directed to make reasonable decisions about the advisability of contributions.

That is the limited purpose of this hearing. We intend to get information and make judgments with that information. Mr. Chairman, Thank you very much.

[The statement of Mr. Dorgan follows:]

Statement of Hon. Byron L. Dorgan

OVERSIGHT STATEMENT ON EVANGELISTS

Mr. Chairman, thank you for calling this hearing today. I think all of us on the subcommittee recognize that this is a very delicate subject.

Television evangelism has been one of America's growth industries in the last decade. In addition to using the technology of television to spread the word of the Lord, evangelists have discovered that the electronic collection plate can be very lucrative. A collection of enormous amounts of money provides evangelists not only with opportunities, but also obligations. And while it's true that the exceptions get most of the attention, it's also clear that at least some evangelists have not been able to maintain accountability for the vast sums they've collected.

Stories of million dollar salaries, million dollar jet airplanes and houses from Malibu to Miami raise not only eyebrows but also some important questions about the hard-earned contributions from some Americans.

Questions about accountability and information. Jerry Falwell indicated some months ago that all television evangelists were going to have to be more forthcoming. They were going to have to offer more information and provide greater accountability. That's the question in today's hearing. What kind of accountability is now required? What kind of information is required? Is the information now available to allow those to whom the appeal for funds is directed to make reasonable decisions about the advisability of contributing? The purpose of this hearing is to get information and to make judgments with that information.

Chairman **Pickle**. Thank you, Mr. Dorgan.

Mr. **Rangel**. Mr. Chairman.

Chairman **Pickle**. Mr. Rangel.

Mr. **Rangel**. Mr. Chairman, I would just like to say that it is clear to the Congress that we are only dealing with a handful of abusers in this area, but that tax exemption is a privilege and not a right and this committee should be able to determine just how much money is being collected by certain so called religious groups, how that money is distributed, and whether or not the IRS has sufficient amount of tools in order to determine whether there has been an abuse of the system.

It is clear to me from the failure of the IRS to get involved in this area until the recent expose of certain so-called ministers that, one, it may be too sensitive for the IRS to review or, two, the Congress has not been involved in providing oversight for the Internal Revenue Service to look at this.

But I think it should be made abundantly clear that not-withstanding how sensitive the issues are, that we have to have respect for our laws and the only way it can be respected is when it is effectively enforced. To that extent, I do hope that the Service will be forthcoming in making recommendations to this committee as to whether or not they think existing law is sufficient for them to be effective, or whether they have recommendations as to how the law should and could be changed.

And to the extent that some of the religious organizations would want to participate in making these recommendations, it certainly would assist this committee and the Congress in a task that is not particularly popular.

Thank you, Mr. Chairman.

Chairman **Pickle**. Thank you, Mr. Rangel.

Now, let the Chair lay before you the witnesses and the program for today. We are going to hear testimony first from the Internal Revenue Service and from the Treasury, then we will hear from Dr. James Kennedy, Rev. John Ankerberg, Rev. Jerry Falwell, Rev. Oral Roberts, Rev. Larry Jones, and Rev. Paul Crouch; and then we will have two panels that follow.

It is the intention of the Chair to work through the lunch period. We have been asked to be out of the hearing room by 4 this afternoon, if possible, so I would ask all members to adhere to brevity as much as you can.

Now, our first witness this morning will be Mr. O. Donaldson Chapoton, the Assistant Secretary for Tax Policy, U.S. Treasury. Then, we will hear testimony from Mr. Lawrence Gibbs, who is Commissioner of the Internal Revenue Service.

I want to say that I know both of these gentlemen have changed their schedule, at a sacrifice, to be here with us here today. We appreciate your cooperation.

So, first, Mr. Chapoton, will you proceed.

STATEMENT OF O. DONALDSON CHAPOTON, ASSISTANT SECRETARY FOR TAX POLICY, DEPARTMENT OF THE TREASURY

Mr. **Chapoton**. Thank you very much, Mr. Chairman. The Treasury Department welcomes the opportunity to be here today to discuss the question of the tax treatment of television ministries. I have submitted a statement for the record and I would merely like to summarize that statement as briefly as possible and then answer any questions that the Committee might have.

Chairman PICKLE. Your entire statement will be included in the record. Would you try to indicate what page you are on, if you refer to your statement.

Go ahead, Mr. Chapoton.

Mr. CHAPOTON. OK.

Well, let me first say that the tax issues that arise in connection with television ministries are similar to those that commonly arise in connection with all tax-exempt organizations, and that is to determine whether the activities that the organization engages in justify tax exemption, whether the payments to that organization are deductible as charitable contributions, whether the earnings that are derived by that organization improperly inure to the benefit of private individuals, and, finally, whether the organization has any unrelated business income which is subject to tax under the UBIT provisions.

In order to minimize the Federal intrusion into religious affairs, the monitoring and enforcement powers of the IRS with respect to churches have been limited by statute, and I will touch on that just a bit, and I am sure Mr. Gibbs will as well.

A television ministry that asserts church status will be eligible for the protection of these special provisions, just like any other church organization.

My testimony will consist of three parts: First, I will talk about the tax rules, the way they have developed; second, I will discuss the substantive tax policy issues that we see raised by these hearings; and, finally, I will touch briefly on the procedural reporting and audit rules applicable to TV ministries.

Let me first in talking about the tax rules, give a brief overview and background of the current law. Since 1894, religious organizations have been exempt, like all charitable and educational organizations. Prior to 1943, there were no reporting requirements at all for tax-exempt organizations.

In 1943, annual reports were required for tax-exempt organizations, but at that time churches and other religious organizations were exempt. These laws were again amended in 1950, and the UBIT or the unrelated business income tax provisions were adopted. At first not to churches, but only to other tax-exempt organizations. It was not until 1969 that the unrelated business income tax provisions were made applicable to churches and applications for exempt status were first required, although not from churches. Prior to that time no organization was required to apply for exempt status, but in 1969 all organizations other than churches were required to apply. Churches were permitted to apply if they wanted to. Some have in order to ensure to their donors that contributions are tax-exempt, but a large proportion of churches do not apply for tax exemption.

In 1969, the private foundation rules came into play, that this committee is familiar with. Churches were as well protected from those rules. Similarly in 1969, churches were specifically given protection from unnecessary tax audits by specific rules that were made applicable only to churches.

In 1983, these restrictions on tax audits against churches or these limitations on tax audits against churches were again reinforced by the Church Audit Procedures Act. Those rules are still in place today and determine how churches may be audited by the Internal Revenue Service.

Now, under the present law, a church is not defined under the tax law. The IRS has issued some guidelines, some criteria to be applied in determining what is a church as distinguished from other religious organizations. These criteria set forth 14 different principles to be applied. These principles include whether the organization has a recognized creed and form of worship, whether it has regular congregations, whether there are regular religious services held by the organizations, and general facts and circumstances to determine the status of its claim to be a church.

The courts, in analyzing these rules and determining the status of a church, have generally used the same criteria, but in addition, the courts have emphasized the associational aspects. As one court put it, "At a minimum, a church should have a body of believers that assembles regularly to worship." And another court has pointed out that "When bringing people together for worship is merely an incidental part of the activities of the organization, it cannot be considered a church."

Nevertheless, in the area of radio broadcasting, which the courts have gotten into, in determining what can constitute a church, the decisions have been somewhat liberal in determining whether the associational aspects of the organization, as distinguished from the broadcasting aspects of the organization, have been merely incidental. This was in a 1987 Tax Court decision involving the Foundation for Human Understanding. It involved radio broadcasting, with average audiences of over 30,000 individuals, and yet the live audience or the live participants that are associated for religious purposes were very small by comparison, 100 to 700 individuals. Nevertheless, the court held that the broadcasting aspects of the organization did not overshadow the associational aspects and therefore the organization was properly deemed to be a church.

It seems to us that these same principles will be applicable to TV ministries and therefore we can look to these radio broadcasting decisions to determine what the proper definition of a church is in connection with TV ministries.

Now, turning for just a minute to the substantive tax policy issues, there are four of them outlined in my testimony, and I will only touch on a couple of them. The first one is the tax-exempt activities of an organization to qualify for tax exempt purpose.

As this committee is well aware, the primary requirement for tax-exempt treatment is that the organization be operated exclusively for religious purposes. But in determining the application of this standard, the courts have looked not so much at the religious purpose of the organization, quite frankly because that is very difficult to ascertain, but, rather, have looked at its commercial activities to determine whether these commercial activities outweigh the religious and charitable purposes of the organization.

If it is determined by the courts that the commercial activities are merely incidental to the activities of the organization, then that is the end of the inquiry, it qualifies as being operated exclusively for religious purposes. If, however, it is not merely an incidental commercial activity, then the inquiry goes further to determine what the primary purpose of the organization is.

In my testimony, I have cited some cases again involving radio ministries to determine whether the activities of the radio ministry is primarily for educational purposes or whether it gets into commercial purposes, and we think that these cases will as well be applied in the television ministry area. We see no different standard, in other words, being applied in television ministries than the standards that have been applied in the past to radio ministries and in the areas of religious publishing, which my testimony touches on somewhat. In those cases, for determining commercial activity versus religious activity, the courts have looked at such things as the salaries paid to employees, the pricing practices of the organization, the competition they have encountered, whether it is a commercial type of competition or charitable, religious type competition, and, finally, the accumulation of profits to determine if these profits are the primary motivation of the organization as opposed to religious and charitable purposes.

Again, we see these same standards and these same tests being applied for religious television ministries and we see that there is no real need for a change in the law because these standards, if properly applied, we think do work well.

I also point out in my testimony there are other restrictions, restrictions on lobbying and political activities. These are in some cases raised in television ministries, but we have had prior testimony before this subcommittee on those issues. We could get into those questions, but we think those issues have been discussed fully and this committee is well aware of them.

The third point noted in my testimony is the prohibition in the law for religious or charitable organizations against private inurement for the benefit of private individuals. This is an area which has raised some attention with respect to television ministries. The law quite clearly prohibits an organization from qualifying for religious and charitable tax exemption if any substantial part of its net earnings inures to the benefit of any private individual. That is just to ensure, the organization has a public, not a private purpose.

The primary issue raised here is one of reasonable compensation. The courts and the IRS, in determining what is reasonable compensation in all exempt organization cases and in all church cases in which they have been involved, have scrutinized self-dealings, insider benefits, one-person control of the organization, and things of that nature.

We think television ministries raise these questions of the possibility of private inurement, but again we believe there is no need for different standards. The standards are there, although they are sometimes difficult to apply. In the case of television ministries, where we have forceful individuals who are good communicators, with substantial control of their organizations, it does raise these questions which can be looked at and resolved by the current principles of law.

The reasonable compensation standard is, of course, a difficult one to apply, both in the area of religion and churches and tax exempt, as well as in commercial enterprises, as this committee is well aware. It presents unusual circumstances in tax-exempt organizations, which make it difficult to apply. There is not usually an audit of the organization, to determine the deductibility of compensation to individuals. We have suggested in our testimony that, if the committee thinks this standard is not workable in its present form, perhaps in the case of tax-exempts or in churches some consideration could be given to applying some sort of procedural safeguards to insure that compensation was reasonable, procedural safeguards such as being sure that compensation is reviewed by an outside or nonemployee members of the board of directors or the controlling council that runs the organization, just to assure that there is outside review and control.

Second, because the tests of private inurement or reasonable compensation and can be resolved only by determining that the tax exemption of the organization is lost if it is violated and that is such a significant test, both the courts and the IRS have been hesitant to apply it in many circumstances. Perhaps some consideration should be given to applying other standards that would be applicable if the test of private inurement or unreasonable compensation are violated.

As we have suggested in prior hearings before this committee, in such areas as private foundations where separate tests are needed, perhaps a violation of unreasonable compensation could result in an excise tax or, if it is a knowing violation of the standard, perhaps some sort of penalties or fines, something of that sort, short of revoking the tax exemption of the organization.

Finally, let me just turn briefly, because I know Mr. Gibbs will comment more on these points, on the reporting and auditing rules that are applicable to tax-exempt organizations.

Churches, unlike other tax-exempt organizations, are exempt from the requirement, as I have commented on, for applying for an exemption from taxation. They are also exempt from the annual reporting requirements imposed on other tax-exempt organizations, the annual filing of the form 990.

We estimate that there are some 340,000 churches in the United States that have made no filings at the time of their organization applying for tax exemption and do not make annual filings under form 990.

Furthermore, the tax rules, the 1983 act in particular, limit the right of the IRS to audit churches and impose specific requirements on the IRS before audits can be instituted. There must be reasonable belief on the part of the Regional Commissioner of the IRS that a taxable incident has occurred before he can authorize an audit, there are requirements for written notices for examination and other such requirements as that that limit the ability of the IRS to come in and audit churches, and these rules are now in place.

Mr. Chairman, that summarizes my comments on the substantive law and the procedural aspects. Let me just say that the tax administration issues raised by television ministries may differ in degree, but we think they are similar in kind to the issues raised by religious organizations in general, television ministries because they reach millions of people, the questions of whether their approaches are correct and whether their commercial activities might in some circumstances be excessive. These issues are perhaps multiplied, but we do not think the issues are any different. We think the key issues are the same and applicable to all tax-exempt organizations and other churches in particular.

We recognize that the absence of the kind of information routinely obtained for other tax-exempt organizations makes it difficult for the IRS to achieve effective enforcement of the laws applicable to organizations that claim to be churches. At the same time we realize that this is a balancing requirement, we must balance the need to enforce the tax laws with the need to respect first amendment and other concerns, and therefore this is a difficult task, both for the IRS and for this committee, and we think that it is appropriate for this committee to review this subject to determine if a proper balance has been struck in this area.

Thank you.

[The statement of Mr. Chapoton follows:]

For Release Upon Delivery
Expected at 9:30 a.m., EDT
October 6, 1987

STATEMENT OF
O. DONALDSON CHAPOTON
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittee:

I am pleased to have this opportunity to discuss the Treasury Department's views regarding the Federal income tax treatment of television ministries. This hearing, the third in a series of Subcommittee hearings to review issues involving tax-exempt organizations, comes at a time of intense public scrutiny of television ministries. Although the respective roles of churches in society and of television ministries in the religious community raise broader issues, this hearing and our testimony address only those issues arising under the Federal tax laws.

The tax issues that arise in connection with television ministries are similar to those that commonly arise in connection with other tax-exempt organizations: whether the activities conducted by the organization are such as to justify exemption from tax; whether payments to the organization are deductible as charitable contributions; whether the earnings of the organization improperly inure to the benefit of private individuals; whether certain income of the organization should be subject to the unrelated business income tax. The difference between television ministries that consider themselves churches and most other tax-exempt organizations lies not in the substantive tax rules that apply to the organizations, but in the procedural rules that prescribe the powers of the Internal Revenue Service ("IRS") to monitor and enforce compliance with the substantive rules. In order to minimize Federal intrusion into religious affairs, the monitoring and enforcement powers of the IRS with respect to churches have been limited by statute. In particular, certain reporting and filing requirements applicable to other tax-exempt organizations do not apply to churches, and IRS audits of churches are subject to special procedural restrictions. A television ministry that asserts church status will be eligible for the protection of these special provisions.

The Treasury Department recognizes the importance of minimizing Federal intrusion into religious affairs and has thus supported the special limitations on IRS oversight of religious organizations. While we continue to believe that such limitations are appropriate, we also recognize the costs they entail for effective administration of the tax laws. Exempting churches from reporting requirements and placing restrictions on IRS audit activities reduce the ability of the IRS to administer and enforce the law.

In order to reconcile the goals of minimizing Federal intrusion into religious affairs and ensuring compliance with the tax laws, a balance must be struck among a set of competing social and political interests. Congress has wrestled with this issue on several occasions, most recently in 1983 when it adopted the Church Audit Procedures Act. The Subcommittee's hearings provide a useful opportunity to determine whether, in practice, the current rules achieve the appropriate balance.

My testimony consists of three parts. First, I will discuss the tax rules that apply to churches and other religious organizations and the historical development of these rules. Second, I will discuss several substantive tax policy issues that arise in connection with television ministries. Finally, I will discuss the procedural reporting and audit rules that apply to churches. The practical application of these rules to television ministries, and the effect of the rules on the ability of the IRS to ensure taxpayer compliance, will be discussed in the testimony of the IRS.

I. Background

A. History and Overview of Current Law

An organization that is formed and operated exclusively for religious purposes and meets certain additional requirements is eligible for exemption from Federal income tax; persons making gifts to such an organization may deduct the gifts as charitable contributions. Religious organizations (like charitable and educational organizations) have been included among tax-exempt organizations since 1894, when the first Federal act imposing a general tax on the income and profits of corporations was enacted. Among the additional requirements that must be met by an organization in order to qualify for tax-exempt status are that no part of the organization's net earnings inures to the benefit of any private individual, that the organization does not violate certain restrictions on lobbying activities, and that it does not engage in prohibited political activities.

Although the basic tax exemption of religious organizations has remained unchanged since the adoption of the Federal income tax, there have been several important changes in the tax treatment of these organizations. Because of concerns regarding Federal intrusion into religious affairs, Congress has enacted rules treating religious organizations differently from other tax-exempt organizations and treating churches differently from other religious organizations.

Tax-exempt organizations were under no obligation to report their activities to the IRS until 1943, when Congress concluded that the lack of periodic information reporting had led to various abuses. Accordingly, it enacted a requirement that tax-exempt organizations file annual tax returns reporting information on their operations. Churches and other religious organizations were, however, exempted from this filing requirement.

In 1950, Congress enacted the unrelated business income tax ("UBIT") in order to prevent tax-exempt organizations from unfairly competing with commercial businesses. Under this tax, an exempt organization is taxed on income derived from a trade or business that is regularly carried on and the conduct of which is not substantially related to the organization's performance of its tax-exempt functions. As originally enacted, the UBIT did not apply to churches, although it did apply to other religious organizations. The UBIT was extended to churches by the Tax Reform Act of 1969 (the "1969 Act").

The 1969 Act made several other significant changes in the taxation of religious and other tax-exempt organizations. First, the 1969 Act expanded the reporting requirements for most tax-exempt organizations. Under these reporting requirements, newly formed tax-exempt organizations were required to apply to the IRS for recognition of their tax-exempt status.[1] In addition, tax-exempt organizations were required to include in their annual information returns such information as the names of substantial contributors, directors, and trustees and the amount of compensation paid to managers and other highly compensated employees. In addition, a fine was imposed for failure to file the annual return. Churches, their integrated auxiliaries, and conventions and associations of churches were exempted from the initial application requirement and continued to be exempt from the annual reporting requirements. The 1969 Act did, however, impose the application and annual filing requirements on other religious organizations.

---

[1] Previously, no application for IRS recognition of tax-exempt status was required (although many organization did so in order to assure donors that their contributions would be tax-deductible).

Second, the 1969 Act imposed certain restrictions on private foundations and on the deduction of contributions to private foundations. These restrictions were designed to prevent the creator of a private foundation from utilizing the foundation's property for personal benefit, to require that property transferred to a private foundation be devoted to a charitable use within a reasonably short period of time, and to separate the philanthropic aspects of foundations from the control and management of business. Churches and conventions or associations of churches, but not other religious organizations, were excepted from the definition of a private foundation.

Finally, the 1969 Act included a provision intended to protect churches and conventions or associations of churches from unnecessary tax audits or other governmental intrusion into their internal affairs. Under this provision, as expanded by Treasury regulations, the IRS could begin an investigation of a church (or a taxpayer claiming to be a church) only if it believed that the church was no longer tax-exempt or was engaged in an unrelated business that would produce taxable income. The IRS was required to give the church two written requests for information prior to initiation of the formal examination of the books of account of the church. Only if no response was made to these requests after a 30-day notice could the IRS begin an actual audit.

In 1983, Congress, concerned that these procedures might not adequately protect churches, enacted the Church Audit Procedures Act. These new provisions, which are discussed later in this testimony, increased the restrictions on IRS examinations of church records and activities.

B. Definition of a Church

Religious organizations that are not churches are subject to the same reporting rules and audit procedures as educational and charitable organizations eligible for exemption under section 501(c)(3) of the Internal Revenue Code (the "Code"). A religious organization that is a church, however, is protected by several special provisions, including exemption from annual information reporting, automatic qualification as a public charity rather than a private foundation, and restriction of IRS audit activities.

Neither the Code nor Treasury regulations define the terms "religious organization" or "church." In making administrative determinations of whether a religious organization is to be considered a "church," the IRS has developed a list of 14 factors that are to be taken into account. These factors identify common characteristics of a church, such as the existence of a recognized creed and form of worship, regular congregations, and regular religious services, and also include the catch-all factor of any facts and circumstances that may bear upon an organization's claim to church status. The courts have taken the same factors into account, but have emphasized the characteristics relating to the associational aspects of a church. As one court has explained, "At a minimum, a church includes a body of believers or communicants that assembles regularly to worship." American Guidance Foundation, Inc. v. United States, 490 F. Supp. 304, 306 (D.D.C. 1980), affirmed without opinion, D.C. Cir. 1981. When bringing people together for worship is merely an incidental part of the activities of a religious organization, those limited activities are insufficient to label the entire organization a church. See De La Salle Institute v. United States, 195 F. Supp. 891 (N.D. Cal. 1961).

Recently, in Foundation for Human Understanding v. Commissioner, 88 T.C. No. 75 (1987), the Tax Court considered whether an organization with substantial radio broadcasting activities could be considered a church. The estimated listening audience for the broadcasts was 2 million people, with a regular listening audience of approximately 30,000. Broadcasting expenditures represented approximately 50 percent of total expenditures. Attendance at services at each of the organization's two locations ranged from 50 to 350 people.

The Tax Court concluded that, although the radio programs of the organization, which included live call-in programs and "A Moment of Truth" from the organization's founder, reached far more people than its religious services, the broadcasting activities did not overshadow its associational aspects. The court looked, for example, to its regular services, its ordained minister, the inclusion of religious instruction in its general education curriculum, and its distinct (albeit short) religious history and concluded that the organization was a church within the meaning of the tax laws.

The reasoning of these authorities would apply equally to television ministries. Thus, unless they fail to meet other applicable requirements, as discussed below, television ministries can qualify as tax-exempt religious organizations. Moreover, if they exhibit substantial associational aspects, such as regular services, ordination of ministers, and establishment of religious schools, television ministries will be churches as well as religious organizations. Under the standard of Foundation for Human Understanding, a television ministry would be a church unless its broadcasting activities so overshadowed its associational aspects that the associational aspects became incidental.

The criteria used by the IRS and the courts in distinguishing between churches and other religious organizations are only guidelines. The determination in each case depends upon the particular facts and circumstances. While this factual determination is difficult, the outcome of the determination has important consequences in light of the significantly different tax rules that apply to churches as compared to other religious organizations.

II. Substantive Tax Policy Issues

A. Tax-Exempt Activities of Religious Organizations

To be eligible for tax-exempt status as a religious organization, the organization must be organized and operated exclusively for religious purposes. Defining "religious" is difficult for both factual and constitutional reasons. Thus, in order to determine whether an organization is being operated exclusively for religious purposes, courts have not looked directly to the religious purposes, but have looked instead to the extent of the organization's commercial activities. If an organization conducting religious activities also carries on a trade or business for profit, the courts ask whether the profit-making activity is merely incidental to and in furtherance of the religious activity. If the income-producing activity is incidental, the inquiry ends at that point. If the income-producing activity is not incidental, the question becomes whether the primary purpose of the organization is an exempt purpose or the operation of a commercial business. That is, the inquiry requires the determination of the subjective intent of the organization.

The issue of whether an organization is being operated exclusively for religious purposes has arisen in the context of radio ministries. See Rev. Rul. 68-563, 1968-2 C.B. 212, amplified in Rev. Rul. 78-385, 1978-2 C.B. 174. These rulings recognize that a nonprofit broadcasting station operating with a commercial license, broadcasting primarily religious and educational programs, and devoting an insubstantial part of its broadcast time to nonreligious commercially-sponsored programs qualifies for tax-exempt status under section 501(c)(3) of the Code. In reaching this conclusion, the ruling notes that the educational and religious programs were selected on the basis of educational merit rather than commercial viability.

The courts have often had to decide whether an organization engaged in religious publishing is being operated exclusively for religious purposes. To decide the question, the cases have looked to salaries, competition, pricing practices, and accumulation of profits. As may be expected when the inquiry is a subjective one into "primary purpose," the exemption is sometimes revoked and sometimes upheld. Compare Pulpit Resources v. Commissioner, 70 T.C. 594 (1979), and Presbyterian and Reformed Publishing Company v. Commissioner, 743 F.2d 148 (3rd Cir. 1984), with Scripture Press Foundation v. United States, 285 F.2d 800 (Ct. Cl. 1961), and The Incorporated Trustees of the Gospel Worker v. United States, 510 F. Supp. 374 (D.D.C. 1981). The same standard would apply to commercial activities of television ministries and the same kind of results could be expected.

B. Restrictions on Lobbying and Political Activities

The tax exemption of churches and other religious organizations, like that of all organizations exempt from tax under section 501(c)(3) of the Code, is conditioned upon certain requirements. These include the requirement that the organization obey applicable restrictions on lobbying activities as well as prohibitions on political campaign activities. Lobbying and political activities of tax-exempt organizations have recently been the subject of hearings before the Subcommittee. Except in instances in which the lobbying or political activities involve the religious doctrines of the organization, the restrictions on the lobbying and political activities of religious organization do not raise issues different from those discussed at those hearings.

C. Prohibition Against Private Inurement

Churches and other religious organizations, like other organizations exempt from tax under section 501(c)(3) of the Code, may qualify for tax exemption only if no part of the organization's net earnings inures to the benefit of any private individual. The purpose of the prohibition on private inurement is to ensure that an exempt charitable organization is serving a public and not a private purpose. Because this purpose is so closely tied to the policy reason for exempting these organizations from tax, the prohibition on private inurement has been strictly construed.

Persons performing services for a religious organization are permitted to receive reasonable compensation for those services. The reasonableness of such compensation is judged by the standard developed under the income tax provisions for business deductions, namely the "amount that would ordinarily be paid for like services by like enterprises under like circumstances." Treas. Reg. section 1.162-7(b)(3); see Founding Church of Scientology v. U.S., 412 F.2d 1197 (Ct. Cl. 1969), cert. denied, 397 U.S. 1009 (1970); Enterprise Railway Equipment Company v. U.S., 161 F. Supp. 590 (Ct. Cl. 1958). Any additional financial benefits, however small and in whatever form, violate this prohibition and cause loss of tax exemption. Courts look in particular for self-dealing or insider benefits and apply a high level of scrutiny to churches or other organizations controlled by one person because of the greater risk of private inurement in this situation. *See Church of Scientology of California v. Commissioner*, 823 F.2d 1311 (9th Cir. 1987), *affirming* 83 T.C. 381 (1984); *Bubbling Well Church of Universal Love v. Commissioner*, 670 F.2d 104 (9th Cir. 1981), *affirming* 74 T.C. 531 (1980).

Television ministries rely upon forceful individuals who are able to communicate effectively. The talents and services that the television ministers provide to the particular religious organizations are unique; their appeal to viewers is largely personal. The ministers' central role in the ministry and the unique services they provide are likely to allow television ministers to exercise substantial control over the organizations. Moreover, in some cases it is difficult to distinguish between their personal activities and their activities on behalf of the organizations. Consequently, nominally private profit-making ventures of a minister, such as the writing of books or the recording of record albums, may raise a question of whether private inurement has resulted from the direct or indirect promotion by the religious organization of these ventures.

Determining whether private inurement exists in the case of television ministers is problematic. Because of the unique services provided by the ministers, it is difficult to apply the reasonable compensation standard. Although heightened in the case of television ministries, the difficulty of determining reasonable compensation exists with respect to a wide range of charitable organizations. We do not believe that special rules are needed for television ministries.

Difficulties in applying the private inurement standard generally may warrant examination by Congress of changes in these rules. First, Congress may wish to consider prescribing procedural safeguards against the payment of unreasonable compensation by tax-exempt organizations. For compensation above an absolute dollar amount, for example, unanimous approval either by non-employee members of the organization's governing board or by a compensation committee composed of disinterested persons could be required.

Second, under current law, any private inurement, even a *de minimis* and inadvertent amount, will result in revocation of the organization's tax-exempt status. The severe nature of the sanction in such a case may have the effect of inhibiting application of the sanction, and thus enforcement of the private inurement rules, in all but clearly abusive cases. That is, the IRS and the courts may hesitate to revoke the tax-exempt status of religious or charitable organizations for private inurement when the penalty seems disproportionate. In the area of prohibited political expenditures, Congress is considering whether sanctions less severe than revocation of tax-exempt status should be enacted. Although the prohibition against private inurement is, to a greater degree than the prohibition against political expenditures central to the reasons justifying tax exemption, Congress may wish to consider formulating an intermediate sanction for certain non-willful violations of the private inurement prohibition.

D. Unrelated Business Income Tax

Churches and other religious organizations are subject to the UBIT. For example, the radio station described in Revenue Ruling 78-385, discussed above, was subject to the UBIT on income derived from its commercially-sponsored programs because the presentation of commercial programs and the sale of advertising were not substantially related to the exempt educational and religious purposes of the organization. The UBIT has recently been the subject of hearings before the Subcommittee. Except where the profit-making activity arguably bears upon the determination of religious purpose, the application of the UBIT to religious organizations does not raise issues different from those discussed at those hearings.

III. Reporting and Audit Rules

A. Exemption from Application and Annual Filing Requirement

As discussed earlier, churches, their integrated auxiliaries, and conventions or associations of churches are excepted from the requirement that organizations desiring tax-exempt status apply to the IRS for recognition as such. Although a few churches apply for recognition of tax-exempt status in order to assure donors that their contributions will be tax-deductible, most do not. In addition, churches, their integrated auxiliaries, and conventions and associations of churches are exempted from the required filing with the IRS of annual information returns (Form 990). These annual filings provide data concerning the operations of the organizations to the IRS and are also made available to state officials and the general public. The information returns provide, for example, the basis of IRS programs to determine the level of compliance by exempt organizations.

As a result of these exemptions, an estimated 340,000 churches in the United States provide no information to the IRS, either at the time of their formation or on an ongoing basis. Although we are confident that the vast majority of churches operate in compliance with the tax laws, the IRS has a limited ability to discover those that do not.

B. Restrictions on Church Audits

As discussed earlier, Congress enacted the Church Audit Procedures Act of 1983 (the "1983 Act") in response to concerns that the then-applicable audit procedures might not adequately protect churches from government intrusion. These procedures, contained in section 7611 of the Code, impose a series of restrictions on IRS examinations of church records and activities. The Treasury Department testified in support of the basic objectives of the 1983 Act, although it recommended various amendments designed to avoid encouraging the growth of the tax protester movement.

The requirements of section 7611 govern current audit procedures for any church, including any organization claiming to be a church. The requirements include the following: (1) an IRS regional commissioner must approve the audit examination, based upon a reasonable belief that a taxable incident has occurred; (2) the church must be given written notice before the examination begins; (3) the IRS must offer a pre-examination conference; and (4) the IRS must complete any audit of tax liabilities within two years after the date on which the notice of examination is supplied to the church. Section 7611 also provides a definition of "church records" to which the provisions apply, limitations on the period of assessment, limitations on additional inquiries and examinations, and remedies for IRS violations of church audit procedures.

As indicated above, these restrictions apply to any organization that claims to be a church. Because such organizations also are not required to apply for recognition of tax exemption or to file annual information returns, the IRS has little basis for disputing claims of church status. As a result, any examination of an organization claiming to be a church will be subject to all the requirements of section 7611.

IV. Summary and Conclusions

In the view of the Treasury Department, the tax administration issues raised by television ministries may differ in degree but are similar in kind to the issues raised by religious organizations and churches in general. Television ministries use the public airwaves to reach millions of people. Thus, any effect -- whether desired moral improvement or forbidden private inurement -- is multiplied. As a result, the case of television ministries highlights the problems of enforcing the tax laws applicable to any organization claiming to be a church. The key issues, however, are the same as those that arise with respect to other religious organizations: the need for neutral and impartial enforcement of the tax laws in a manner that respects the need to minimize Federal intrusion into religious affairs.

We have suggested that the Congress may wish to consider establishing procedural safeguards against unreasonable compensation and imposing an intermediate sanction for certain non-willful instances of private inurement in the case of tax-exempt organizations generally. We believe, however, that the current laws governing exempt organizations re by in large adequate for addressing the issues that can arise with respect to tax-exempt television ministries.

Current law, in order to minimize Federal intrusion into religious affairs, excepts churches from reporting requirements that apply to other exempt organizations and contains special rules for IRS audits of churches. This choice has consequences for the administration of the tax laws. An organization that is not entitled to be considered a church for purposes of the tax laws can nonetheless take the position that it is a church. On that basis, it can claim exemption from the filings needed by the IRS to determine whether the organization is in fact a church. Without this information, it is difficult for the IRS to identify possible violations of the law. Thus, the procedural rules make enforcement of the substantive rules difficult.

As I have previously stated, the Treasury Department supported the objectives of the 1983 Act and the attendant limitations on oversight of religious organizations. We also recognize that the absence of the kind of information routinely obtained for other exempt organizations makes difficult the effective enforcement of the laws applicable to organizations that claim to be churches. Although some kind of periodic reporting requirement for organizations asserting church status could improve tax administration, it would commensurately increase government involvement in the financial affairs of such organizations. As suggested by the provisions of the 1983 Act, society may be willing to accept less effective enforcement of the tax laws with respect to these religious organizations in order to limit government involvement in religious affairs.

Balancing the need to enforce the tax laws with the need to respect First Amendment and other concerns is and will continue to be a difficult task, requiring a careful adjustment of competing social and political interests. We believe that the Subcommittee hearings provide a timely opportunity to examine how the current rules are working and will assist Congress in determining whether the proper balance has been struck.

This concludes my prepared remarks. I would be pleased to respond to your questions.

Chairman PICKLE. Thank you, Mr. Chapoton. We appreciate your testimony and we are glad to have this full discussion of your views.

Now, Mr. Gibbs, if you will proceed. Mr. Gibbs is the IRS Commissioner, and we appreciate your attendance today, Mr. Gibbs.

STATEMENT OF HON. LAWRENCE B. GIBBS, JR., COMMISSIONER OF INTERNAL REVENUE, ACCOMPANIED BY MICHAEL J. MURPHY, SENIOR DEPUTY COMMISSIONER, AND ROBERT I. BRAUER, ASSISTANT COMMISSIONER FOR EMPLOYEE PLANS AND EXEMPT ORGANIZATIONS

Mr. GIBBS. Mr. Chairman and members of the subcommittee, we at the Internal Revenue Service share your concerns and sensitivities about the recent events involving some so-called TV ministries. We are delighted to appear here this morning, and I would like to begin by introducing my two colleagues on my right, your left.

To my right is our Senior Deputy Commissioner, Michael J. Murphy. Mike has only recently joined us from Philadelphia, where he was regional commissioner for the mid-Atlantic region, and he is our Senior Deputy Commissioner, which is the highest career position in the Internal Revenue Service.

Chairman PICKLE. Mr. Murphy, we are very glad that you are here and we are glad you are in your present position. I might add that you have picked a fine time to join us in our efforts, and we are happy to have you here.

Mr. MURPHY. Thank you, Mr. Chairman.

Mr. GIBBS. Thank you, Mr. Chairman.

Mr. Chairman, I would also like to introduce Robert I. Brauer. Bob is our Assistant Commissioner for Employee Plans and Exempt Organizations, and is the person with principal responsibility for the exempt organizations area that encompasses the television ministries, churches and other religious organizations that we will be discussing this morning.

Chairman PICKLE. We are glad you are here, Mr. Brauer.

Mr. GIBBS. I think, Mr. Chairman, that you and the other members of the subcommittee and Mr. Chapoton have outlined very well the competing considerations that we will be discussing this morning.

Our heritage, our history, our traditions and our culture in this country emphasize the importance of the pluralism of religious views and practices. We in this country are reluctant to make laws or to involve government in any way that impacts the establishment or free exercise of religion, and that is primarily because of the constitutional protections that exist.

So, you have the cultural inclination and the Constitution on the one hand and on the other, you have the fact that the Internal Revenue Service is charged with the compliance of our tax laws. This latter responsibility requires the Internal Revenue Service to assure the public that those organizations which have been granted tax-exempt status are indeed applying their funds in the manner intended by Congress when that privilege was extended.

Given these competing considerations, my statement this morning will be short and straightforward. I will not read my written statement, which I ask be entered into the record, Mr. Chairman.

Chairman PICKLE. It will be entered and we appreciate your summary.

Mr. GIBBS. My point is simply this, as all of us have discussed, we believe that the vast majority of churches and religious organizations in this country operate within the law and serve the purposes for which they were intended.

I am going to be devoting my comments this morning to discussing problems of a few organizations, churches and religious organizations. The Internal Revenue Service is working hard, and we believe effectively to insure that contributions and funds of these organizations are used exclusively for tax-exempt purposes.

Quite frankly, our activities to provide this assurance and to detect and police abuses are limited by the specific laws which Mr. Chapoton has outlined. These laws limit the amount of information that churches provide to the Internal Revenue Service initially and on an annual basis, and there are substantial restrictions, indeed impediments, to the ability of the Internal Revenue Service to conduct examinations of churches from a tax standpoint.

Mr. Chapoton has summarized, and I will only briefly note, the applicable provisions of present law. Section 501(c)(3) of the Internal Revenue Code exempts the income of churches and religious organizations from tax if these organizations meet the requirements of that section. If those requirements are met, then section 170(c) of the code provides for a deduction to donors who make gifts to churches and religious organizations that are exempt under 501(c)(3).

As Mr. Chapoton indicated, since 1969, section 508 of the Internal Revenue Code has required organizations who wish to obtain exempt status to notify the Internal Revenue Service and file an application form, form 1023, that will make the case for why the organization feels that it is entitled to the exemption.

I would point out that churches are exempt from this requirement by the statutory provisions. They are not required to notify the Internal Revenue Service if they claim to be a church and wish to be entitled to the tax exemption that is offered by that status.

Section 6033 of the Internal Revenue Code provides that most exempt organizations are required to file annual information returns with the Internal Revenue Service on form 990, on which they identify to the Internal Revenue Service their financial condition, their activities, their officers, and similar type information. Again, by specific provision in the Internal Revenue Code, churches are not required to file annual information returns.

Finally, as I will mention briefly in a moment, we have a very active examination program for most exempt organizations. When it comes to churches, we are specifically restricted by the provisions of section 7611, which was added in 1984 to the Internal Revenue Code, and which restricts our ability to conduct routine examinations.

As Mr. Chapoton mentioned, this particular section of the Internal Revenue Code specifically requires that our regional commissioners or higher authority within the Internal Revenue Service—

and there are only seven regional commissioners who are primarily responsible for our field operations—must hold a reasonable belief based on information that they have in writing that either there is income that is subject to tax or that the organization should not be entitled to the exemption which it claims before they can begin an examination. In beginning the examination, the regional commissioner must give notice to the organization and permit the organization to come in for a conference. We are also required to notify our attorneys for the Internal Revenue Service and permit them to express their opinion as to whether this is appropriate.

Often, it takes considerable time to actually get to the point of making an examination. We find, in this area, that when we examine organizations claiming to be churches, oftentimes, since they have not been filing annual returns, they do not have the books and records that many other organizations that are required to make an annual return would have.

We also find that, whether the organization is exempt or whether it has unrelated business income, these organizations are represented by very capable and competent attorneys and accountants whose job it is to represent organizations and they represent them very well. This also takes time, particularly as the case winds its way through the examination, appeals and other procedural rights that any taxpayer has.

There is, further, a provision in section 7611 which requires us to complete our examination of churches within 2 years after the second required notice actually given to the church, unless we are able somehow to convince the church to agree to extend this limitation.

Finally, when we get into the examination, we are limited again by a specific provision so that we cannot go back more than 3 years, for the most part, in examining the church's activities. The sanctions that we have are basically to revoke the exemption of the organization or to impose unrelated business income tax on the organization. As I said, these are severe sanctions and for this reason the examination is usually a protracted process.

With respect to media ministries, I should mention that some claim church status and others do not. Some simply claim to be religious organizations. Some organizations initially claim to be religious organizations and then switch and subsequently claim church status. Now, the importance of that is this:

If an organization claims simply to be a religious organization, it is required to give the initial notice, file annual returns and is subject to our routine examination procedures. It is only those organizations that claim to be churches, either initially or subsequently, that are exempt from the initial and annual information requirement and also have the benefit of the restrictive provisions of section 7611 dealing with our examination capability.

Let me turn just very briefly to our exempt organizations programs and procedures in the examination area. We mentioned the application process and the annual information process. Let me mention just very briefly the examination process.

Most of our examinations are conducted in the exempt organizations area as a result of computer scoring that is similar to the computer scoring we use in the individual or income tax area. The data for the computer scoring is derived from Taxpayer Compliance Measurement Program audits, or TCMP audits, of a selected few organizations.

In addition, we receive input from the public, the media and Congress about organizations that we should be taking a look at. This information is disseminated to our field organizations and they make their determination. We also have special emphasis examination programs, areas where because of certain studies or tests that we have done, we realize there is noncompliance or are concerned about its possibility and we will emphasize those particular areas.

Now, again, because many TV ministries claim to be churches and do not file initial applications and annual returns, the IRS essentially is precluded from using our computer scoring and TCMP methods of examination selection.

I would point out to the subcommittee that with respect to exempt organizations generally and religious organizations that are not claiming to be churches, we have an audit level of almost 5 percent, which is about three to four times what the audit level would be for individual income tax returns, so our program is a substantial program for exempt organizations generally and also for religious organizations that do not claim to be churches.

I would mention one other factor to the subcommittee in your deliberations, and that is this: Recently, you will recall that we have formed an exempt organization advisory group at the Internal Revenue Service. We have had our first meeting of representatives from the charitable organizations and practitioners to discuss problems of administering the law pertaining to exempt organizations. There was one segment of our program that dealt with the problems of churches and religious organizations.

At that meeting, we permitted church organizations from the audience to participate. They indicated a willingness to discuss with us new rules that will protect the churches' rights and also permit us to better detect potential abuses. Some of these organizations may be testifying today and undoubtedly will be commenting to you. If you feel it is appropriate, we would be delighted to join you and them in these types of discussions, because it seems to us that this is a very constructive way to proceed.

I would close by simply saying again that most of the churches and religious organizations in this country, we believe, comply with their legal obligations. The issues here, as we discussed, are the appropriate degree of accountability, public accountability, and the ability of the Internal Revenue Service to insure compliance.

We have very limited information when we are dealing with churches, and our ability to examine the churches is limited by section 7611. That again is simply because of the difficulty of coping with our obligations to insure compliance and at the same time respecting the rights of churches and religious organizations that are assured by the Constitution.

Because of these competing considerations, we look forward to working with you and we sincerely appreciate your willingness to hold these hearings to discuss this important and timely matter.

Thank you.

[The statement of Mr. Gibbs follows:]

Testimony of Lawrence B. Gibbs
Commissioner of Internal Revenue
Before the
Subcommittee on Oversight
House Ways and Means Committee
October 6, 1987

Mr. Chairman and Members of the Subcommittee:

I am pleased to join you today to discuss the federal tax rules applicable to tax-exempt organizations involving television ministries. Having testified at this Committee's two earlier hearings this year on other tax-exempt organization issues, I want to commend your Subcommittee for its willingness to hold hearings on these important and sensitive areas. We share your concerns about recent events involving some television ministries. I hope that our perspective on the problems facing a tax administrator in this area will be helpful to you.

Also, with me are Michael J. Murphy, our newly appointed Senior Deputy Commissioner, and Robert I. Brauer, Assistant Commissioner for Employee Plans and Exempt Organizations. Mr. Brauer has the responsibility for administering the Service's nationwide compliance and rulings program in this area. We will all be available to answer questions at the conclusion of my testimony.

Overview

Recent events relating to television ministries have renewed interest in the subject of tax benefits accorded to religious organizations. We have read and heard a great deal about alleged abuses by a few. I therefore would like to begin my remarks by saying that I believe the vast majority of churches and religious organizations serve well the laudable purposes for which they are organized, and operate well within the law. As we today discuss how to deal with problems caused by potential noncompliance by a few, it is important that we also remember the reasons our founders, two hundred years ago, felt it was important to protect the free exercise of religion in this country from government regulation.

With my opening remarks in mind, I would like to turn to some of the problems and difficulties encountered by IRS in administering the existing tax laws governing churches and other religious organizations. These problems and difficulties have special importance because of their impact on the public's confidence that tax deductible and tax exempt funds are being used exclusively for tax exempt purposes.

My message today is straight-forward. The Service is working to ensure that tax-exempt income and tax-deductible contributions of religious and charitable organizations, including television ministries, are being used exclusively for intended statutory purposes. However, our activities to detect and check tax law abuses and violations in this area are conducted within the constraints that Congress and the courts have provided. Current law significantly limits the obligation of churches to initially apply for tax exemption from the Service or to file annual information returns with the Service. Current law also significantly restricts the ability of the Service to audit churches.

The result is that, with respect to television ministries, although current law imposes responsibility on the Service for enforcing the tax laws in this area, current law also imposes substantial impediments to effective enforcement action by the Service in this area. These impediments prevent the Service from dealing with tax abuses and violations in this area as effectively and efficiently as the Service is able to act in other areas of the tax law.

To be sure, we are able to function, but often on only a reactive basis. We are concerned that a public perception of the Service as an agency ill-equipped to deal with law violations and abuses, except for the most flagrant and publicized ones, has the potential to undermine public confidence in the laws pertaining to tax-exempt organizations. We therefore welcome your oversight review of this area.

Current Law

Of all the interpretative judgments the IRS must make in administering the tax laws, probably none is more difficult or sensitive than those involving questions of religion. The laws enacted by Congress to protect the free exercise of religion stem from the First Amendment and have historically been reflected in the tax laws. The Internal Revenue Code traditionally has exempted both churches and other religious organizations from federal income tax if they are "organized and operated exclusively for religious ... purposes." The key statutory rules are section 501(c)(3), which provides for the exemption of a church's income from federal income tax, and section 170(c), which provides a deduction to donors for their charitable gifts and contributions to churches. In order to be entitled to exemption under section 501(c)(3) an organization must meet five basic tests:

1) It must be organized and operated exclusively for religious or other charitable purposes;

2) Its net earnings may not inure to the benefit of any private shareholder or individual;

3) No substantial part of its activities may consist of lobbying efforts, or, if an organization elects, its lobbying expenditures may not exceed statutory ceiling amounts;

4) It may not participate or intervene in political campaign activity; and

5) It must serve a public purpose and not be contrary to established public policy.

Once the determination is made that an organization qualifies for exemption as a religious or other charitable organization, a second determination must be made to classify the organization either as a private foundation or public charity. Generally speaking, television ministries would typically be classified as public charities either as a church or as a publicly supported religious organization.

It is important to understand that under current law more favorable tax rules apply in the case of churches than with other types of religious organizations. Section 508 of the Code generally requires organizations seeking exempt status to notify the Service by filing an application for recognition of exemption. Churches, however, are excepted from the notice requirement and need not inform the Service of their existence in order to claim exemption from federal income tax.

Churches also benefit from a number of other exceptions in the Code. For example, section 6033 provides that churches do not have to file annual information returns with the Service, unlike other types of exempt religious organizations. Section 7611, "Restrictions on Church Tax Inquiries and Examinations," places substantial restrictions on the ability of the IRS to examine churches. I will go into more detail on the effect of Section 7611 later in my presentation.

For these reasons, classification as a church is much more favorable than classification as a religious organization. An organization which considers itself to be a church can claim exemption and solicit tax-deductible contributions without first notifying the Service to apply for exemption. An organization claiming to be a church is not required to file annual information returns with the Service. There are substantial restrictions on the ability of the IRS to examine any organization which claims to be a church. For these reasons it is much more difficult for the Service to establish an effective compliance program in the case of churches.

While Congress has provided long-standing statutory guarantees and protections from interference for churches in the Internal Revenue Code, nowhere in the Code is there a statutory definition of the term "church". Instead, Congress has left it to IRS, the courts and the organizations themselves to make this determination. Herein lies the first and most basic problem in administering the tax laws in this area.

In determining whether a religious organization is also a church, the court in De La Salle Institute v. United States stated:

> "To exempt churches, one must know what a church is. Congress must either define 'church' or leave the definition to the common meaning and usage of the word; otherwise, Congress would be unable to exempt churches. It would be impractical to accord an exemption to every corporation which asserted itself to be a church. Obviously, Congress did not intend to do this."

In the absence of statutory language, the IRS has issued guidelines to its employees based on judicial decisions in several cases. These guidelines enumerate fifteen criteria that are used in making a determination of church status. All the criteria are important, but the two most important are whether the organization has 1) a membership not associated with any other church or denomination, and 2) regular congregations. The criteria are not exclusive and are merely a tool to aid Service employees in making the highly factual determinations of church status. All facts and circumstances that bear upon an organization's assertion of church status are taken into account.

Media Ministries

Our experience with television ministries is that some claim church status and some do not. Also, some television ministries initially do not claim church status but subsequently assert it.

If a television ministry is not a church, it is required to file both an application for exempt status and annual information returns. Also, the ministry is subject to regular audit review by the Service to ensure compliance with the tax-exemption requirements as well as other federal tax rules.On the other hand, if the ministry is a church, or claims such status, then the organization removes itself from the filing and reporting scheme applicable to other exempt organizations generally.

Exempt Organization Program and Procedures

IRS administration of charitable and other exempt organizations has three basic components: 1) the initial application process for recognition of exemption; 2) the filing of the annual information return on Form 990; and 3) the examination program. In all of these areas, the Internal Revenue Code accords special treatment to churches.

In my discussion of these rules, I fully appreciate the sensitivity of the issues and the difficulty of establishing statutory rules that protect the independence of churches while also protecting the interests of all taxpayers from the few who would abuse these protections. However, I wish to emphasize that the rules pertaining to churches are very difficult to administer. This is true not only because of the sensitive legal and constitutional questions of interpretation that we are regularly required to make, but because the Service does not have ready access to basic information that provides the foundation for our examination program of both taxable and other non-taxable organizations.

Application Process

As noted, all churches and their "integrated auxiliaries" are statutorily exempted from the requirement to file an application for exemption on Form 1023. When completed, an exemption application provides basic and significant information about the structure of the organization, its purposes, contemplated activities, responsible officials, and affiliated organizations. While some churches do voluntarily file an exemption application in order to provide their contributors advance assurance of deductibility of contributions, most churches do not.

The application process serves a number of useful purposes. First, it enables the Service to compile a roster of organizations that are claiming exemption. This roster serves as a basis for further administrative actions such as determining whether the organization is required to file an annual Form 990. Second, it aids the compliance effort because it facilitates a screening process to ensure that organizations claiming exemption are entitled to it. Third, it builds a factual record on which both the Service and a successful applicant can rely. Finally, it creates a public record that can be used for research by a number of diverse groups including the educational community, the media, and the Congress.

The Congress created an exception to the application process for churches and their integrated auxiliaries. The fact, however, that a television ministry may be able to claim that they are entitled to the exception for churches, without necessarily establishing such status, means that the organization is not on the Service's roster of exempt organizations, and not subject to review in our normal examination program.

Also, once an application for exemption is approved, it creates certainty about the status of the organization for the Service, the exempt organization, and its donors. If an organization represents in its application that it is going to be engaged in certain activities, and the Service recognizes its exemption, the organization can engage in these activities without concern about a later retroactive change in Service position with respect to the organization's exemption. Without the application and approval process, there is no standard upon which both the Service and the organization can rely.

Perhaps the most compelling reason for a public record in exempt organization matters is the need for public confidence in tax administration. Since applications of exempt organizations are available for public inspection, the public can judge for itself whether the Service acted properly in a particular case. To the extent that church organizations do not participate in the application process, this element of public confidence may be missing.

Annual Return

With the exception of churches and integrated auxiliaries, virtually all other exempt organizations are required to file Form 990, the annual information return for exempt organizations. The only other major exception to the annual filing requirement is for organizations whose gross receipts are normally less than $25,000. The Form 990 information return serves several purposes. It provides the Service with periodic information about an organization's activities, and it provides the Congress and the public with other important information about the organization.

Form 990 describes major programs and activities conducted by the organization, provides financial information about the organization's compliance with various requirements of the tax laws, and identifies officers, directors, employees and independent contractors and their related remunerations.

Without Form 990, the Service, the public and the Congress are deprived of this information. The Congressional purpose behind the public availability of Form 990 is that publicity itself is a check against potential abuses. We believe this notion has great merit and a salutary effect on overall compliance with the tax laws in the exempt organizations area. Therefore, when large organizations seeking funds from the general public are not required to file Form 990, the benefit of a public accounting no longer exists.

Examination Restrictions

In 1984, Congress strengthened the rules protecting churches from examinations. Before IRS can examine an organization claiming to be a church, it must meet certain statutory tests. Section 7611 requires that a notice of inquiry be sent to the organization by the appropriate regional commissioner, who is the highest ranking IRS official in each of our seven regions. This notice of inquiry may only be sent if the regional commissioner reasonably believes, on the basis of facts and circumstances recorded in writing, that the church may not be exempt from tax, or is carrying on an unrelated trade or business, or is otherwise engaged in activities subject to tax. This determination must be made, however, with respect to an organization which frequently does not file information returns or any other information with the Service.

Once we finally proceed with an examination of the church, we often find that the books and records are incomplete. This lack of accounting information such as supporting records documenting expenditures and information on income from third parties, makes it very, very difficult to conduct an examination.

Also, under Section 7611 the church is entitled to a conference at an early stage, the Service is under a strict two-year time limitation to complete the examination, and, in general, the Service can not review conduct or transactions of the church that occurred more than three years prior to the date of the notice of examination.

The Examination Program

In previous testimony before this Committee, the Service has discussed its exempt organization examination program. I would like to briefly cover this testimony again, because the claim to church status has a critical impact on the program.

The Service selects exempt organization returns for examination from four independent sources. Most returns are selected based on a computer scoring system similar in approach to that used for scoring income tax returns. This computer scoring system is based on information furnished on the annual return of organizations which file annually and is intended to identify those returns most in need of examination.

A second selection category is the Taxpayer Compliance Measurement Program (TCMP) for exempt organization returns. This also parallels our income tax approach, and is a scientifically designed random sample of returns that are audited in detail. The results of the TCMP examinations form the basis of the computer scoring mentioned above. The TCMP program is designed to assist the Service in determining the overall level of compliance by tax exempt organizations and how to allocate staff resources. The most recent TCMP examinations in the exempt organization area were conducted between 1980 and 1985, and their results were incorporated in computer scoring performed after January 1, 1986.

A third source of examinations in the exempt organization area is based on input from the public. The Service receives information from a multitude of sources, including the media, the Congress, and the general public suggesting that a particular organization may be carrying on nonexempt activity. Information of this sort is used by our district offices, which evaluate the information to decide whether an examination is warranted. The decentralization of responsibility for making decisions about whether to conduct an examination with respect to information of this sort is intentional. It is designed to minimize political influence, and is a policy of longstanding duration that was formulated when the Service was reorganized in the early 1950's.

The fourth source of examinations in the exempt organization area is our special emphasis programs. At various times, special emphasis is placed on a particular area where there are indications of possible noncompliance. For example, a greater concentration of resources has been used in past years to examine private foundations, private schools, grassroots lobbying activity, and (currently) administrative expenses of private foundations.

Overall, media accounts and inquiries from the general public and the Congress provide the best sources of information regarding possible noncompliance in the television ministries area. Because many of these organizations are not filing applications for exemption or annual returns and are claiming church status for purposes of section 7611, the Service for the most part is precluded from using its computer scoring system for returns selection or conducting TCMP audits.

Exempt Organization Advisory Group

During our testimony earlier this year, we informed you of our intent to establish an exempt organization advisory group. Its first meeting was held last month. A lively topic of discussion concerned the problems of administering Internal Revenue Code provisions relating to churches. We received many helpful comments and suggestions. One of these was a request by church representatives to begin a new dialogue directly with the Service, in the same spirit of mutual understanding that led to a successful resolution of the problem of Form 990 return filings by integrated church auxiliaries. Working together, Congress, the church community, and the Administration may be able to formulate new rules or interpretations that adequately protect the rights of the many honest churches and other religious organizations while allowing us to detect and deter the abuses of a few.

Summary

By way of summation, present law applicable to television ministries that consider themselves to be churches places the Service in a very difficult tax administration position. The tools used to administer the tax laws with respect to other exempt organizations are not available for churches. No application for tax exemption is required, no annual returns need be filed, and the substantial hurdle of the "reasonable belief" requirement must be met by the Service to initiate an audit inquiry.

My purpose today is to make you aware of the effect of present law on the Service's ability to administer existing Code provisions relating to churches and other religious organizations, including television ministries. As I have said before, we truly believe the overwhelming number of these organizations do operate in compliance with existing tax laws. What we believe is at stake here, however, is public confidence in the tax exemption process. The fundamental issues for tax administration in this area are the appropriate degree of public accountability by religious organizations soliciting public contributions and the ability of the Service to audit these organizations to ensure compliance with the tax laws. The Service is fully cognizant of the fundamental importance of First Amendment protections for religious beliefs and practices. In our dealings with religious organizations, we generally have sought to limit our inquiries to issues of prohibited inurement of net earnings, lobbying, and political and other nonexempt activities. Nevertheless, for the reasons previously discussed, under current law the Service is limited by the information it presently receives from churches and the restrictions on our ability to audit churches. The Service, therefore, is unable to assure the same level of compliance with the tax laws by these organizations as is the case with other tax exempt organizations. We therefore welcome your examination into the effectiveness of the tax law in this area.

We will now try to answer any questions you may have.

Chairman PICKLE. Thank you, Mr. Gibbs and Mr. Chapoton.

Now, I am sure each one of the members would want to pose questions to you. I am going to try to ask each member to stay within the 5-minute limitation so that we can move along as quickly as possible. The Chair will try to abide by the same rule in general.

Mr. Chapoton, you made some reference to the area of private inurement. You said it might be that Congress would want to consider ways to tighten up the private inurement area to be certain that the moneys used are used for charitable purposes. Do you have any recommendations for us in that area?

Mr. CHAPOTON. Mr. Chairman, we do not have any specific recommendations other than those commented on in our testimony. I do not think this relates specifically to the TV ministries or even to churches. It is just that in the area of tax-exempt organizations it is often difficult to determine what is reasonable compensation because there is not the usual tension of the deductibility of the payment by the organization.

Chairman PICKLE. All right. If you have any recommendations, we would like to have them, of course. You also pointed out that churches, as such, do not file annual forms 990s. Did you say that 350,000 did not file forms?

Mr. CHAPOTON. Our estimate is 340,000.

Chairman PICKLE. A lot of them are not filing forms. Should all churches and all other religious organizations, including TV ministries, file annual reporting forms? Is that a weakness in our procedures.

Mr. CHAPOTON. Well, it is difficult to say that is a weakness. If you looked at it strictly from the standpoint of IRS enforcement, IRS audits, I think it would undoubtedly aid enforcement.

Chairman PICKLE. Let me ask both of you gentlemen, when a person gives money to a charitable institution, the law says that they have a right to be sure that the money is used for exempt purposes and not for private inurement. Now, how can the public, the Internal Revenue Service or the Congress be sure that tax-deductible contributions solicited by TV ministries are used for charitable purposes? How can you be sure of that? How do you know? How does anyone know if they give $100 or $1,000 or $5 that the money is being used for that purpose? Can either of you tell me how we can be sure of that?

Mr. CHAPOTON. Well, Mr. Pickle, I think to be sure of it, of course, there would have to be some sort of exhaustive audit or——

Chairman PICKLE. Mr. Chapoton, would you speak a little louder so we can hear you better?

Mr. CHAPOTON. I think to be sure of it, Mr. Pickle, there would have to be some complete audit or examination of the books of the organization, but I think that the——

Chairman PICKLE. You or Mr. Gibbs indicated that we have about a 5 percent review of these charitable organizations. That is a high percentage and I am surprised. On the basis of that number reviewed, that must mean you have some audits going on. How many audits have you had of TV ministries, say, in the last 5 years?

Mr. GIBBS. Mr. Chairman, we do not keep—we have not targeted religious organizations or TV ministries from the standpoint of keeping specific types of enforcement statistics. We have conducted a brief survey in anticipation of this hearing, simply by going out and sampling the audits that we have in existence at the present time, and we find that we presently have under audit, at the present time, approximately 25 evangelists or their organizations.

Chairman PICKLE. That are going on at this time?

Mr. GIBBS. That is correct, because we do not keep those kinds of enforcement statistics, I cannot give you more information than simply a snapshot at the present time.

Chairman PICKLE. Well, I think that is an interesting figure and I am surprised to know that number is involved, but I accept your statement. I have had the feeling personally that both the Congress and the Internal Revenue Service has looked the other way on a lot of these audits. But if you have got 35 of them on-going, that is an interesting figure.

Mr. GIBBS. Twenty-five, Mr. Chairman.

Chairman PICKLE. Twenty-five.

Mr. GIBBS. Twenty-five, excuse me.

Chairman PICKLE. All right. Now, you said that once you start an audit it should be finished at least within 2 years. Now, we are told by press reports and the statements of individuals testifing today that the Internal Revenue Service did submit an internal audit recommending that the PTL tax-exemption be revoked. That recommendation was made in 1985. Now, nothing has been done. I understand that you have changed that from a civil to a criminal charge at this point. I do not intend for you to comment specifically on that case, but the 2 years have now passed and nothing has been done. Is this a typical case? How long do you take to audit the normal TV ministry?

[The following was subsequently received:]

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

NOV 16 1987

The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
U. S. House of Representatives
1105 Longworth Building
Washington, DC 20515

Dear Mr. Chairman:

This is in response to your request for the views of the Internal Revenue Service on the adequacy of information provided by television ministries to the IRS, including the questions on the annual information return, Form 990. You also asked for detailed information concerning the nature and extent of the Service's examination program in the area. My response to your questions will be of a general nature. As it will not identify any particular taxpayer, it is publicly disclosable.

It is the opinion of the Service that the information currently requested on the Form 990 is generally adequate for purposes of administering the tax laws with respect to those organizations required to file Form 990's. While incremental improvements in the form can, of course, be made, the information available is sufficient for appropriate tax administrative decisions to be made. Our experience gained through a number of examinations of evangelist organizations indicates that an active examination program utilizing the information already available is effective in dealing with any potential abuse of the tax laws.

As I indicated in my testimony at the October 6 hearing on evangelists, many evangelistic organizations are considered churches and are exempt from the annual information filing requirement as well as the initial application process. Therefore the Service does not have ready access to basic information about churches that provides the foundation for our examination program. In addition, the Service's ability to examine such organizations is curtailed by IRC 7611. Consequently, the Service cannot assure the same level of compliance with the tax laws by these organizations as is the case with other tax exempt organizations.

The extent of the Service's substantial audit presence in the evangelist area can be gauged from the fact that five of the well-known evangelistic organizations are currently in various stages of the examinaton process. Some of these examinations have been in process a number of years and are nearing final action. Others are in the early stages of the process. In addition to the five well-known organizations, with their related organizations and individuals, the audit presence has extended for a number of years to lesser known evangelists. Because of the disclosure restrictions of the Internal Revenue Code, the Service has not publicly indicated which organizations and individuals are involved, nor have most of the taxpayers involved made their tax affairs public. Consequently, the general public and the press are unaware of the existence of many of the examinations. All of our regional offices report some examination activity of evangelists currently underway or contemplated.

As of October 1987, the Service had approximately 30 lesser known evangelists under examination. The examinations were triggered by a variety of events. With regard to the prominent evangelists, third party sources provided the Service with information or there were unusual aspects to the information filed with the Service that led to an initiation of inquiries. Many of the lesser known evangelist examinations were initiated for the same reasons, although the document matching program and computer scoring of returns also appear effective in identification of returns with potential tax adjustments.

The issues identified on examination by the Service include, for the tax exempt organizations themselves, inurement, private benefit, political activities, lobbying, operation in a manner similar to a regular commercial enterprise, and a failure to maintain appropriate substantiation of exempt purpose expenditures. Inurement has taken the form of payment of excessive salaries and benefits, including personal residences, automobiles, travel expenses, and loans, to those in control of the organization. Although funded by the general public through contributions, the cases under examination demonstrate a pattern of close control and incomplete or nonexistent disclosure to contributors of the actual uses made of their money. While the preceding issues relate to continued qualification for exemption, other issues are also present in several of the cases including entitlement to church classification, operation of an unrelated trade or business, and employment tax questions.

A number of the examinations of evangelistic organizations have been expanded to include examinations of the individual tax returns of those in control of the organizations and of related organizations other than those exempt under IRC 501. Issues in those related examinations tend to reflect the issues present in the exempt organization examination such as unreported income from inurement. In addition, a number of evangelists' individual returns have been examined where the issues, such as unsubstantiated business expenses or unreported interest income, do not directly impact the exempt status of a related evangelistic organization.

As a number of the evangelist examinations involve several tax entities and individuals, the Service is developing a cross-functional team approach to the examinations in which exempt organizations revenue agents and income tax revenue agents, together with computer audit specialists, under an audit team leader, conduct the examinations. In addition, we are reviewing the process by which exempt organizations information returns are classified for examination potential with a view to improving the effectiveness of the process. We anticipate that we will be able to make improvements that will result in more efficient utilization of examination resources in this sensitive area of the tax law.

On a related matter, I hope to submit to you by December 1 the follow-up information that you requested of a Section 6103 (nondisclosable) nature relating to the organizations currently under examination.

In closing I would like to emphasize that one of the keys to an effective examination program concerns the general public. Information provided to the Service by third parties has proven to be of significant assistance. I encourage anyone who has knowledge of possible abuse of the income tax laws to contact their local IRS office or, if they prefer, contact the Director, EP/EO Operations Division in the National Office.

With best regards,

Sincerely,

Larry Gibbs

J.J. PICKLE, TEXAS, CHAIRMAN
SUBCOMMITTEE ON OVERSIGHT

BERYL ANTHONY, JR., ARKANSAS
RONNIE G. FLIPPO, ALABAMA
BYRON L. DORGAN, NORTH DAKOTA
HAROLD FORD, TENNESSEE
CHARLES B. RANGEL, NEW YORK
ANDY JACOBS, JR., INDIANA

DICK SCHULZE, PENNSYLVANIA
BILL FRENZEL, MINNESOTA
WILLIAM M. THOMAS, CALIFORNIA
RAYMOND J. McGRATH, NEW YORK

Ex Officio:
DAN ROSTENKOWSKI, ILLINOIS
JOHN J. DUNCAN, TENNESSEE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

SUBCOMMITTEE ON OVERSIGHT

DAN ROSTENKOWSKI, ILLINOIS, CHAIRMAN
COMMITTEE ON WAYS AND MEANS

ROBERT J. LEONARD, CHIEF COUNSEL
M. KENNETH BOWLER, STAFF DIRECTOR
BETH KUNTZ VANCE, SUBCOMMITTEE STAFF DIRECTOR

A.L. SINGLETON, MINORITY CHIEF OF STAFF
MICHAEL A. SUPERATA, COUNSEL TO THE MINORITY

December 4, 1987

The Honorable Lawrence B. Gibbs, Jr.
Commissioner
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

Dear Commissioner Gibbs:

Thank you for your letter dated November 16, 1987, concerning the Service's activities in reviewing television ministries' compliance with the Federal tax laws. We found this response to the questions we raised at the hearing to be most informative. A copy of your letter will be forwarded to the Subcommittee Members for their information and will be included in the Subcommittee's October 6, 1987 printed hearing record.

In the future, we expect the Service to respond to any request of the Subcommittee for information (whether it be for publicly disclosable information or for information provided under the Subcommittee's statutory authority) immediately after the request has been made, by interpreting the scope of the request in a reasonable and broad manner, and by providing as much information, analyses, and discussion of the information requested as is allowed under the law. In making such requests for disclosable and/or non-disclosable information, we expect the Service to provide us with all relevant, related, and complete information in a meaningful and educational format.

Based on hearing testimony presented to the Subcommittee and other information submitted for the record, it appears that the IRS is presently monitoring compliance with the Federal tax rules as applied to television ministries. It is extremely important that all tax-exempt organizations, including religious organizations and churches, comply with the law. Unfortunately, there are several cases that cause the Subcommittee Members and the public to ask questions about overall compliance. The question of television ministries' compliance with the law has become a national issue. It is important that the public and the

Congress know that the IRS is diligently pursuing these matters. We expect the IRS to do so. As with other organizations exempt under section 501(c)(3), compliance with the law by television ministries is particularly important since contributions to such organizations are tax-deductible.

Your testimony indicates that the IRS' monitoring and examination efforts relating to television ministries have increased during the past year. We accept your statement that the IRS is not targeting religious organizations, churches, or television ministries. We do not ask that the IRS do so. However, it is important that the IRS seriously undertake its responsibility of insuring compliance with the law, and the IRS continue to examine those organizations and individuals that break the law, including television ministries.

We do not anticipate any further Subcommittee hearings at this time and do not see any immediate need for legislation in the area. However, we do ask that the Subcommittee receive a disclosable and nondisclosable status report, every ninety days, on IRS activities and problems that develop in the area. In addition, we request that the IRS (in coordination with the Department of the Treasury) forward to the Subcommittee any legislative recommendations that are developed for improving compliance with and enforcement of the law. As you suggested in your letter, we will urge that anyone who has knowledge of possible abuse of the income tax laws to contact their local IRS office or National Office.

We appreciate your cooperation and assistance in this important oversight review.

Sincerely,

JJ Pickle

J. J. Pickle, Chairman
Subcommittee on Oversight

Richard T. Schulze
Ranking Minority Member

Mr. GIBBS. Mr. Chairman, let me answer if I can, let me answer the question generically so that we stay away from individual cases not only because of the disclosure provisions under section 6103, but so that we also do not interfere with any examinations or other activities that we may have in particular cases.

Again, when you have a church involved, because of the provisions of section 7611, we cannot even begin an audit until we have a reasonable belief that something has been done that would cause us to be able to either revoke an exemption or assert that the organization owes tax. Since we have no information in the way of initial application or annual returns, this largely means that it is a reactive type of thing. It is only after it comes to our attention in a credible way from the public that we can even begin an audit.

Chairman PICKLE. Well, Mr. Gibbs, if they are a religious organization and qualify for 501(c)(3) tax-exempt status they are supposed to submit a form 990. What do you mean, you do not have any information before you? You get a form 990.

Mr. GIBBS. Well, let us be sure that we are talking about the same thing, because——

Chairman PICKLE. I am not talking about churches. I am talking about the religious organizations.

Mr. GIBBS. Well, again, Mr. Chairman, with respect to religious organizations, we indeed do have an audit program. We are able to audit them and quite honestly we have not detected any basis to give us the type of concern for religious organizations that are filing initial applications and annual forms 990 as we do have with respect to churches that are not required to file that information and our examination powers are limited.

Chairman PICKLE. Let me restate my question. If they are a 501(c)(3) religious organization then they do file a 990 or are supposed to. Now, IRS receives the form 990. Is there not enough information on that form to allow you to make a decision of whether to audit that ministry or not?

Mr. GIBBS. Yes, sir, there is. Actually, we include those with the other exempt organizations in our routine examination programs and through our computer selection and——

Chairman PICKLE. Your problem, then, is if they do not file a 990.

Mr. GIBBS. That is correct, Mr. Chairman.

Chairman PICKLE. You would not know who they are or where they are.

Mr. GIBBS. That is correct.

Chairman PICKLE. But would you not know they are out there if they are on national television raising $5, $10, $20 million, that—you say you do not know where they are, surely you are mindful of that?

Mr. GIBBS. Mr. Chairman——

Chairman PICKLE. It seems to me like your weakness is getting the forms. Should all organizations be required to file some kind of form?

Mr. GIBBS. Mr. Chairman, again, for churches, what we run into in this area are the competing considerations of the tax law versus the constitutional provisions concerning the establishment and exercise of religion, the free exercise of religion. That, as I understand it, is the basis for the statutory decisions that have been previously made in terms of restricting the reporting requirements to the Internal Revenue Service.

Chairman PICKLE. My time is running out. Do you have the clock on? I do not want to overstay my time, as I know everybody wants to ask questions.

Mr. Gibbs or Mr. Chapoton particularly, some ministries have 8 or 10 family members running the ministry. How do you feel about that? Is it important to know who is on the board of directors, for you to know, the IRS or Treasury?

Mr. CHAPOTON. Mr. Chairman, I think when you have family members involved in a business, frankly that raises the same sort of questions that are present when a family member is involved in a commercial business and that is whether the salaries that they are being paid are excessive or whether they are just taking profits from the business.

Chairman PICKLE. What standard do you use on a reasonable salary? $30,000? $50,000? $80,000?

Mr. CHAPOTON. It is not a dollar amount, Mr. Chairman, it is the——

Chairman PICKLE. I beg your pardon?

Mr. CHAPOTON. It is not a dollar amount that is used, it is the worth that the individual brings to the organization, what his services are worth.

Chairman PICKLE. Suppose an individual gets paid over a million dollars?

Mr. CHAPOTON. Well, I think that would again depend upon the worth to the organization. There are high salaries in commercial enterprises and—I am agreeing with you that it is a difficult standard to be applied in all cases and particularly in tax-exempt organization cases, and that is why we suggested that to insure—this is not a suggestion but just an idea for consideration, because it perhaps needs to be given further consideration and study, but the concept of whether in tax-exempt organizations that some independent members of the board who are not employees, who are not directly affiliated and do not stand to benefit themselves from the enterprise or from the organization——

Chairman PICKLE. We will come back to the reasonable salary later. I am going to yield now to Congressman Schulze, because I know my time must be up, but, Congressman Schulze, I want to come back to my original question at the end.

Mr. SCHULZE. I thank the chairman for yielding.

Gentlemen, I would like to ask you about net earnings, where the law prohibits the private inurement of net earnings, does that mean that the entire net earnings cannot go to one individual or does that mean that he could take part of the gross earnings? How do you interpret that language in section 501(c)(3)?

Mr. CHAPOTON. Well, I think that the law—I do not have the language before me, but I think that any part of the net earnings that inure to the private profit of an individual violates the standard of 501(c)(3). I think the distinction between net and gross there simply relates to the fact that it is the ultimate earnings, I think if they are actually participating in the gross income as well that would violate the principle.

Mr. **Schulze**. That is why I am somewhat puzzled. I did not know whether there were court cases which have defined that particular term. Where it says in section 501(c)(3) that no part of the net earnings may inure to the benefit of any private shareholder or individual, my concern is how you determine net earnings. I would think that all of them receive some benefit from the net earnings. In other words, if a minister is paid $10,000 a year or $8,000 or $3,000, it certainly has to come out of the net earnings of the church or the organization. Unless somehow you say no, that it has come out of the gross income, not out of the net and the net is after that salary. That is why I am trying to pin down that definition.

Mr. **Gibbs**. Mr. Schulze, I wonder if I could clarify for you: We take the position that if compensation is paid and that compensation is reasonable, whether it is paid to a controlling individual or any other individual, that that is not an inurement issue, that is compensation for services that are received by the organization.

Mr. **Schulze**. And that is as it relates to the income of the organization.

Mr. **Gibbs**. That is correct.

Mr. **Schulze**. You would not say because somebody is a television personality, say Johnny Carson gets $12 million or whatever he gets, $8 million or $3 million or $5 million a year, that this individual should get $5 million, that is not the way it is related?

Mr. **Gibbs**. No, it is not. But when you get into the issue of what is reasonable, it is an all-the-facts-and-circumstances issue and what you are trying to determine is comparability—comparability of the compensation paid to an individual versus other people in similar lines of business or like endeavor.

Mr. **Schulze**. That is exactly what I am trying to get at. So how do you determine that? Do you say that because an anchorman on television has a similar audience to a TV evangelist and he makes $1.3 million a year, then the evangelist should make $1.3 million a year. Or do you say because it is a religious organization, he should only get $30,000 a year, where the TV anchorman gets $1.3 million?

Mr. **Gibbs**. Mr. Schulze, you now understand why the audits take as long as they do. When you have capable attorneys on both sides of the fence arguing that one, you can argue a long time.

Mr. **Schulze**. In fact, Larry, I feel a little apologetic because the IRS has not been given the tools by Congress to do the job that some of us are demanding that you do or expecting that you do. We do not say in the law that you cannot have relatives on the board whether it is a small business or religious organization. So until—in fact, there was a court case, the *LaSalle* decision or something, that said Congress must either define church or leave the definition to the common meaning and usage of the word.

So, if we are not going to give you the guidelines—and it seems to me you are operating within the guidelines—if you audit 5 percent of churches or religious organizations, that is probably as high or higher than any other group. From my standpoint you seem to be operating within the guidelines that we have given you.

I see that my time is also expired, Mr. Chairman, and I thank you.

Chairman **Pickle**. Thank you, Mr. Schulze.

I might add that the reason we are having this hearing is to try to find out how you interpret the law, how you ask for compliance, and what are enforcement guidelines. And if we do need to give you more tools, then we should know that and you should give us some recommendations. I have not heard any recommendations from either Treasury or the IRS. If you need more tools, you ought to let us know because that is the reason we are having the hearing.

Now, Mr. Anthony?

Mr. Anthony. Thank you, Mr. Chairman.

I could not disagree more with my good friend, Mr. Schulze, when he says that Congress has not given the IRS the tools. Maybe we have not given you every single tool, but we have given you adequate tools. What we have done, because we understand the sensitive nature of the inquiry, we have put some constraints on you.

Now, I want to read from a Time magazine article, dated August 3, 1987, and then I would like to come back with my inquiry. This is under the section on religions. It says: "The Bakkers' high living had caught the eye of the IRS long before the PTL scandal finally broke. In 1981"—underscore 1981—"the agency launched a 2-year inquiry into the ministry, then in a confidential 1985 report the tax man recommended revocation of PTL's tax-exempt status retroactively to 1980. Reason: The IRS believed the organization did not operate exclusively for tax-exempt purposes and that part of its income personally benefitted the Bakkers and others."

The second paragraph goes and talks about the high salaries and talks about the condominiums and the costs of the condominiums and talks about the costs of the fixtures and all, and talks about the interest-free loans.

My point is this, and it takes me back to the days when I was a prosecuting attorney: When you have an investigation that started in 1981, and here it is 1987 and nobody knows what was the outcome of that recommendation, then it appears to me that you are giving a strong signal to these TV ministries to do any and everything they want to, that they are not subject to a final penalty of the law, and I think this is a classic illustration and I would just like to hear—neither one of you gentlemen were there, you have both come on in recent times—I would like to hear your explanation and justification for why this type of conduct can be condoned.

Mr. Gibbs. Mr. Anthony, I would be delighted to do it. Again, I would like to talk generically and not about any particular audit or examination. As you know, for the last 10 years and for most of my 25 years of experience, I have practiced as an attorney in representing clients. With large clients and difficult cases, in my experience it is not unusual to be in the examination and appeals process for a number of years and that is true even in situations where you can get information on a fairly easy basis.

Now, let me go back again and just go through for a second, and I will not belabor it, but go through what it takes in terms of an examination of a church.

Mr. Anthony. Could I interrupt you there? I have read the material, I was briefed by the staff before I came here, I am keenly aware. The TV ministers in the audience have lawyers, they have all explained what the law is, I personally do not think we need another lesson on what the laws are.

Mine is a straight-forward management question. Let me rephrase it. What if one of your regional commissioners conducts this investigation and there is a confidential memo that comes to you and says that one of these tax-exempt organizations ought to be revoked retroactive back to a certain period of time, would you sit on it for 6 years?

Mr. GIBBS. I would neither sit on it nor would I deny the organization the rights that it has under the law to pursue its remedies with the procedural safeguards that they are entitled to use.

Mr. ANTHONY. Then I take it from your answer then that those procedural safeguards are on-going and that possibly this could be an on-going case?

Mr. GIBBS. The whole point is that in the church area, there is a right to a conference. We have to convince them—we have to sit down with them and explain why we think it is reasonable for us to even conduct the audit, and that is before we even get to the books and records.

Mr. ANTHONY. If this committee imposed some type of limitation and said that an audit had to be completed within 6 years, would that be unreasonable?

Mr. GIBBS. Once you get to the books and records, the law already provides that it must be completed in 2 years, unless there is an agreement between the organization and the Internal Revenue Service to extend that.

Mr. ANTHONY. I guess what bothers me, I am taking the assumption that if a 1985 confidential report went to the Commissioner to revoke, that all of those things were done, that the books and records had been reviewed or otherwise they never would have made the recommendation. I guess that is what——

Mr. GIBBS. But, Mr. Anthony, any organization will still have appeals rights. In other words, if you start—let us say you started an examination at a particular point in time and completed your examination of the books and records and made a recommendation at that point to revoke, the organization still has the right to appeal that determination within the Internal Revenue Service.

Mr. ANTHONY. But no appeal was triggered here because no determination was made. I wish we had more time to get into this, maybe in another discussion.

Mr. GIBBS. All I am saying is that there are procedural rights and particularly when the sanction is the loss of exemption. Exercising those procedural rights takes time because it is something that is of real concern to the organization and its representatives and the process tends to take a longer time than the normal case.

Mr. ANTHONY. I thank the Chairman.

Chairman PICKLE. Mr. Frenzel?

Mr. FRENZEL. Thank you, Mr. Chairman.

Gentlemen, thank you for your testimony. In the testimony of each of you there are no hard recommendations to the committee. It is a little hard for us to proceed without clear guidance from your organizations, although it is certainly possible for us to do so.

Most of you have hinted that—and the Commissioner a little more vigorously—that your inability to get information from churches, that the blanket exemption is a problem. Would either of you care to elaborate more on that subject, or are you willing to let your testimony stand?

Mr. **Gibbs**. Mr. Frenzel, I particularly wanted to come down as the Commissioner to outline for you what some of my concerns were in the administration of the law. I recognize the difficult decisions that the Congress previously made about the extent to which we will permit the Internal Revenue Service to intrude into the affairs of churches in this country.

One of the things that I recognize is that we are talking about competing considerations here, and what I tried to do today is outline my administrative concerns and then do what I offered to do at our exempt organizations advisory committee meeting several weeks ago, and that is listen to the other side of the story. That is what I understood was the purpose of the hearings today, not only to hear from the IRS but also the churches, the TV ministries, the others who are interested, and I would like to hear the other side of the story and then I will be happy to work with you and with them in whatever way is appropriate to balance these competing considerations.

So I would like to reserve any recommendations to you until we have heard the other side of the story.

Mr. **Frenzel**. Don, any amplification or will you stand by the written word?

Mr. **Chapoton**. Mr. Frenzel, I believe I am going to have to stand by the written word. I agree with what Mr. Gibbs said, that it is a difficult area that this Congress had for many years trying to balance the competing considerations of unwarranted interference in the operation and activities of churches, with the need for more information to insure that they are engaged solely in public charitable activities, religious activities.

Mr. **Frenzel**. I would like to ask a question that is general and perhaps you will not have the answer, and perhaps there is no answer. During the Tax Reform Act of 1986, we eliminated the deduction for charitable contribution for short-form filers. When we did that, we knew that we were taking away a privilege that had been held dear by a number of people and at the time speculated that the interests which were going to suffer the most were the corner churches. Thinking about it now, I suspect that those kinds of people may also be contributors to TV ministries who are making modest contributions, with modest income, and not being able to take advantage of the tax deduction. Is there anything that either of you know from your audits or from analysis of the records that can confirm that or shed any further light on it?

Mr. **Chapoton**. Mr. Frenzel, I do not believe we have any data yet. There were a lot of discussions, of course, about the impact of the 1986 act on charitable giving, religious and otherwise, the lowering of the rates in itself deters charitable giving in a clear respect, and the elimination of the deduction for nonitemizers is another aspect of it. I do not think we have any data yet to tell us what the impact has been.

Mr. **Frenzel**. Thank you. Mr. Gibbs?

Mr. **Gibbs**. Mr. Frenzel, I, too, have no information. I listened with interest to the debate about whether people make contributions, particularly the contributions you are mentioning, because of the tax law or because of other reasons. I do not think we have the data to know that yet.

Mr. **Frenzel**. Thank you very much. Mr. Chairman, I yield.

Chairman **Pickle**. Thank you, Mr. Frenzel.

Mr. Flippo?

Mr. **Flippo**. Thank you, Mr. Chairman.

Mr. Chapoton, you stated in your testimony on page 10 that you suggest procedural safeguards against unreasonable compensation and imposing an intermediate sanction for certain nonwillful instances of private inurement in the case of tax exempt organizations generally, but we believe that the current law governing exempt organizations are by and large adequate for addressing the issues that can arise with respect to tax-exempt television ministries.

Then, Mr. Gibbs, you state in your testimony that the current law limits the IRS and its ability to assure the same level of compliance with the tax laws by tax-exempt television ministries and others as you can by other organizations. So the question is whether or not—you say you are limited, so you cannot be sure that these ministries are meeting the same criteria that other tax-exempt organizations are meeting because of the limitations in the law, so the question we are examining is whether or not the limitation should continue as they are.

I wonder if either of you would care to answer whether or not there have been sufficient questions raised about funds received by television ministries, as to whether or not they have been used exclusively for religious purposes? Have there been enough questions raised about that for you to suggest that we change the current law limitations to give you more adequate information to answer those questions?

Mr. **Chapoton**. Mr. Flippo, I hesitate to say whether the activity that has been in the press really would be sufficient to undermine the protection and the safeguards which have long since been proper for churches, as the point was made earlier that the television ministries do get a lot of publicity and that I think from that standpoint if the IRS could deem it appropriate to determine—deem it appropriate from the news that is made public that there were some private profits being obtained or that religious purposes were not being obeyed, that in itself would justify an inquiry into those organizations. I would hesitate to say because of that kind of publicity the entire treatment of churches should be revised dramatically.

Mr. **Flippo**. That is not what I am asking you. I am asking you if the information that you have, the questions that have been raised to the public and the public are raising as to whether or not the funds are used exclusively for religious purposes. Is that information enough that you would suggest that we look at the limitations that prohibit you from making those determinations today?

Mr. **Gibbs**. Mr. Flippo, I would respond this way. With the restrictions that we have, particularly with regard to information on and investigations of churches, we at the Internal Revenue Service are largely in a reactive posture here in terms of making those kinds of determinations.

Mr. FLIPPO. Do you want to change that, Mr. Gibbs?

Mr. GIBBS. Pardon me?

Mr. FLIPPO. Do you wish to change the fact that you are in a reactive position?

Mr. GIBBS. Well, what I am suggesting is this. We are only now developing, with respect to more than simply a handful, information about the ministries that you are talking about. We are in the process of doing that, largely because we are reacting to something that is of relatively recent occurrence. I do not think we are far enough along in that analysis, particularly in light of the fact that we have all admitted that this is a relatively small handful, apparently at the present time, to begin to make these kinds of decisions.

We are in the process of evaluating this and we will certainly share that information. But I do not think we are to the point yet, given the concerns about the first amendment and the countervailing concerns, to actually come forward with an amendment or proposal in that area.

Mr. FLIPPO. Well, if I conclude, what both of you gentlemen have said—if this is a fair statement—that you do not believe that the current questions are sufficient for you to change the limitations in current law in regard to television ministries.

Mr. GIBBS. I did not say that, Mr. Flippo. I think what I am saying is that with the current concerns, I think it is appropriate to try to answer that question and we are in the process of getting into the audits, getting into the information in order to be able to make an intelligent response. So I would not say no at this point, but we are not in a position to say yes.

Mr. FLIPPO. The information that you are currently getting. Do you think it is going to be sufficient for you to make a determination, or do you need additional information to make that determination?

Mr. GIBBS. I think we would like to have additional information from the churches. That is one of the reasons for making the invitation to them in the Exempt Organization Advisory Committee, and I assume it is one of the purposes for the hearing today.

Mr. FLIPPO. Thank you very much, Mr. Chairman.

Chairman PICKLE. Mr. Gibbs, may I add that we are not asking you to submit some recommendations specifically today. We did not enter this hearing with any kind of legislative program in mind, nor do we want to short circuit due process in any kind of an audit. We are trying to find out how do we go about enforcing the law and asking for compliance. So we are not trying to rush into this thing. We do want to know, if we should do something else? That is what the committee is trying to find out, We want to work with you and appreciate that fact that you want to hear from the other side, as we do too.

Mr. GIBBS. Mr. Pickle, thank you, and let me say too, these are difficult questions. I recognize that. I really do recognize that. And I mean it when I say that I appreciate your interest—yours personally, and the other subcommittee members. We really have tried to outline some of the areas for concern. We know they are a concern to you. We know they are a concern to the American public. They are a concern to us and we want to work with you to try to address the concerns and yet at the same time recognize that thus far these are a very small minority and we certainly do not want to over react in terms of the other religious organizations and churches that are out there.

Chairman **Pickle**. Thank you Mr. Gibbs.

Now, Mr. Thomas.

Mr. **Thomas**. Thank you, Mr. Chairman. Thank you gentlemen. I will apologize in advance. I am going to be shuttling between two oversight hearings this morning—one in the Elections Subcommittee dealing with voting accessibility for the elderly and the handicapped and, of course, this one today. So I will be examining accessibility to our polls in one subcommittee and accessibility to our souls in this one. [Laughter.]

We have talked about the differences between religious organizations and churches. Why would someone want to file as a religious organization if they could qualify as a church? My answer would be, I do not know why, and I want to learn what you would say.

Mr. **Gibbs**. Several reasons. One is that an organization may well want to have a determination in a close instance at the beginning. This is, I think, highlighted by the recent case that was decided within the last month, I believe, by the Tax Court.

The name of the organization was the Foundation of Human Understanding. They were concerned about whether they had church classification and they came in and spent a number of years with the Internal Revenue Service seeking a favorable determination. When we ruled adversely, they went to the courthouse, as they are permitted to do, for a declaratory judgment and were told that they were a church, that we were wrong.

So you have some organizations that in close cases will want to do that. Others may want to be able to assure donors so that they can raise funds from the donors.

Mr. **Thomas**. Certainty would be one reason.

Mr. **Gibbs**. Yes. As a religious organization entitled to exemption under 501(c)(3) and so that the donors could have the advance assurance that their contributions will be deductible. Those are at least some of the reasons.

Mr. **Thomas**. But isn't it true that in both religious organizations and churches the contributions are tax deductible?

Mr. **Gibbs**. Yes, that is true. But my point is this, if an organization simply claims to be a church and does not come forward and it is ultimately determined that they are not a church, then the contributors to that organization have no advance assurance because there has not been an advance ruling.

Mr. **Thomas**. But what are the odds of someone claiming themselves a church, given the criteria that are used and the odds on being investigated for that purpose actually ever being, first, discovered, second, declared a religious organization rather than a church? Aren't there pretty good odds in their favor to simply declare themselves a church?

Mr. **Gibbs**. Yes, but apparently some organizations are more interested in the assurance that they would give to their contributors than the odds of playing the church audit lottery.

Mr. **Thomas**. What percentage of churches or number of churches now voluntarily file?

Mr. **Gibbs**. Our best estimates are that we have approximately 30,000 to 40,000 churches that have filed.

Mr. **Chapoton**. Out of 340,000, so it is about 10 percent. But those are estimates, of course.

Mr. **Thomas**. And they are estimates. This gets touchy, but I want to know is there any pattern to the churches that have filed? That is, do they tend to be a particular denomination? Does there tend to be a region of the country? Is there anything that allows you to group them a particular way? Size?

Mr. **Gibbs**. Mr. Thomas, we really have not done that type of analysis in this area to be able to answer your question. I just do not know. I am sorry.

Mr. **Thomas**. Has there been any effort on the part of the IRS on an outreach program to indicate that it would be helpful or useful to file voluntarily? Has there been any discussion with those who have filed voluntarily as to why they filed voluntarily?

Mr. **Gibbs**. No, Mr. Thomas, I do not believe we have gone back and actually asked that kind of information of those that have filed voluntarily, at this point.

Mr. **Thomas**. Well, one of our concerns, of course, is to figure out how we get some degree of mutually acceptable compliance. It would seem to me that you would start with the group that had voluntarily complied to determine their rationale for doing it and proceed from there. So that may be a useful direction to pursue.

Mr. **Gibbs**. Perhaps that is something that we could explore with the churches and also with our Exempt Organization Advisory Committee. I understand where you are headed with that and it seems to me it would be constructive.

Mr. **Thomas**. Thank you. Thank you, Mr. Chairman.

Chairman **Pickle**. Mr. Dorgan?

Mr. **Dorgan**. Thank you, Mr. Chairman.

This morning I was having breakfast with a North Dakota tour group of farmers. The fellow sitting next to me asked about this hearing and told me that his neighbor had passed away a year or so ago. They discovered this fellow, who was single and lived alone, a small farm owner, had left his entire farm to the PTL Club.

He was underscoring the fact that folks out there in the country who listen to these appeals, some of which are very genuine and worthwhile, and some fraudulent, do not know which appeals to which they ought to respond. It leads me to the question I think that Congressman Anthony and Congressman Flippo were trying to pose.

I was a tax administrator prior to coming to Congress, and let me say, Mr. Gibbs, I have deep respect for you. I think that you have great capacity to lead the IRS. At the same time, your response to Mr. Anthony's question, I think, was not as forthcoming as I would have liked. The IRS has a reputation from a management standpoint of not being able to resolve many of these issues in any timely fashion.

It does not take 6 years or 7 years to resolve issues internally. It is true if you get into a litigation situation these things can drag out. But internally, from a management standpoint, I think you have not only a responsibility, but you have an opportunity as a new Commissioner to streamline these approaches. I am not talking about not allowing due process to inure to those who are involved. But the people out there who are on the receiving end of these appeals need to understand.

For what is this money being used? Is it being used for the Lord's work, or in this exception, is it being used to buy a million-dollar house someplace? I would encourage Congressman Anthony's line of questioning to you to say, he is asking you about management. The IRS is notorious for dragging things out forever and not ever getting much done inside on some of these difficult areas. I think you will do a much better job if you determine from a managerial standpoint to do that.

Mr. GIBBS. Mr. Dorgan, let me respond to that. I did not—Mr. Anthony, I certainly did not mean to be disingenuous or curt in my response to you. I guess the point I was making is simply this, I certainly recognize that in some areas—and particularly today—my organization is subject to some criticism for the length of time that we take to resolve taxpayer matters. I certainly understand the importance to individuals in the community of attempting to determine what our decisions are in this area.

I will fully admit that any time we have an issue that involves the question of whether an organization is entitled to tax exempt status, and particularly a church, that is such a major issue that it likely does take us longer than perhaps one would like if all you are looking at is simply the issue of the public's need to know an answer.

The problem, it seems to me, is one of recognizing that when you have that kind of an issue, with the sanctions and terms of the loss of exemption being what they are, you are inevitably going to have very strong opposition from the organization and an attempt to talk to us, particularly when we come to a conclusion early on that we are going to propose revocation of the exemption.

Mr. DORGAN. I understand your statement. I simply say that there is room for much better management to expedite these issues and that is, I think, what we would expect.

Now, let me make one other point, if I might. Reverend Falwell was on television some time ago and said that there had to be more accountability for what is happening to this money. I agree with that. I think many in the television evangelist area are saying, we have a responsibility for more accountability.

Mr. Gibbs, you are talking about churches when you are talking about the difficulty of pursuing this. Yet many of the folks who are going to be testifying are filing the 990s because they are tax exempt religious organizations. They are filing under 501(c)(3). So when you talk about the difficulty in this entire area with respect to the narrow definition of church, that does not necessarily apply to many of those are going to testify today because they are filing 990s.

The question is, are those 990s of a sufficient nature so that you get the information necessary to determine what the money is being used for?

Mr. GIBBS. Based on the review, again, we have not singled out religious organizations that file 990s from other organizations that are in our audit program. But looking at the audit results that we are getting for those organizations that are filing the 990s, we have not found a particular reason to be concerned, as we are with the organizations that are not—namely, the churches.

Chairman **Pickle**. Mr. McGrath.

Mr. **McGrath**. Thank you, Mr. Chairman.

Gentlemen, my questions are going to relate to either churches or religious organizations as it relates to their related organizations. A New York newspaper's TV section this morning reported that one of the TV ministries is going to cut a program off of nearly 50 television stations, quote:

> An understandably negative feeling about television evangelists has dried up donations, a spokesman said.
>
> This ministry received $5.3 million less in donations in television viewers in the past 6 months than it did the year before.

It goes on to say that,

> The $5.3 million loss was offset by funding increases from other parts of the religious empire, including tuition increases at an 8,000 student university.

My question is, does the 990 form give enough information to be able to evaluate these kinds of transfers within related organizations of either a religious organization or a church?

Mr. **Gibbs**. Mr. McGrath, the form 990 does have a place on it where information is requested about related organizations, organizations that are controlled by or in some way related to the exempt organization that is filing the 990. Now, on the form itself, I do not believe there is a line or a way in which specific transfers would be highlighted on the form itself. That would be a matter that we would have to uncover during the examination process.

Mr. **McGrath**. If the ministry was a church you would never know; am I correct?

Mr. **Gibbs**. If they were not—we have some TV ministries that are not churches. There are relatively few that file 990s, but if they are a church and do not file 990s, the answer is yes, we would not know.

Mr. **McGrath**. If the university were a for-profit organization and a church were the parent corporation, then you would never know, either.

Mr. **Gibbs**. Well, if the university were a for-profit organization then we would be receiving, I assume, some sort of reporting form from them. Even if they were a nonprofit, whether they were profit or nonprofit. We would be receiving a 990 from the——

Mr. **McGrath**. In other words, the religious organization would have to file a 990—the not-for-profit——

Mr. **Gibbs**. The university.

Mr. **McGrath**. The university would have to file one, also?

Mr. **Gibbs**. Yes.

Mr. **McGrath**. Okay. Does the 990 form indicate whether items of income between these related organizations are properly allocated?

Mr. **Gibbs**. No, and as our previous testimony in some of the earlier hearings indicated, this is an area of some difficulty and concern for us—the allocation of income and expenses and so forth.

Mr. **McGrath**. I would suspect then that the same answer would be true in terms of whether the expenses were properly allocated?

Mr. **Gibbs**. That is correct.

Mr. McGrath. And staff, I imagine, in terms of the same question?

Mr. Gibbs. Yes.

Mr. McGrath. Let me ask you whether or not that particular transfer that I recited in this article, whether that transfer of revenues from one function of the organization to another is legal under the IRS Code?

Mr. Gibbs. Mr. McGrath, I really, sir, would prefer to stay away from specific examples that could be tied back. I do not know. I——

Mr. McGrath. Well, generically then, is the transfer of funds between related organizations under an umbrella organization something that is looked upon in favor by the IRS?

Mr. Gibbs. It really depends upon the facts and circumstances with respect to the transfer. There is nothing inherently wrong with a transfer of funds. It depends upon the purposes, who the transferor and transferee are, what the purposes are that the funds are used for, how they are accounted for, that type of thing.

Mr. McGrath. Let me go on to commercial activities and in terms of whether or not they are UBI: The sale of air time on a broadcasting network if this ministry should own a network.

Mr. Gibbs. I believe we have rulings to the effect that if it is commercial sale of time then it would be subject to the unrelated business income tax.

Mr. McGrath. One further question, Mr. Chairman, and that is regarding the parsonage allowance. How many houses does it apply to? One, two, three—how many?

Mr. Gibbs. Mr. McGrath, we have, again, a situation where when you look at the Internal Revenue Code, section 107, there is simply a provision to permit the exclusion of a parsonage allowance. What we and the courts have said about that is that you look to the value of the home being provided, the residence being provided, or the dollar amount being provided and you take a look to see whether that, along with the other compensation, is a reasonable compensation and if it is a reasonable compensation to the individual, then we do not get into the issue of whether it is an appropriate parsonage allowance when examining the continued qualification of an organization for exemption.

There is a case involving one of the prominent television ministers in the brochure that the Joint Committee staff has provided. And by the way, I just might say this—the Joint Committee staff does an excellent job; that is one of the best short summaries that I have seen. In the footnotes there is a case involving one of the prominent TV ministers in which the parsonage allowance was raised, and it has a complete discussion of the parsonage allowance provisions.

Mr. McGrath. Thank you, Mr. Chairman.

Chairman Pickle. Now, Mr. Rangel.

Mr. Rangel. Thank you, Mr. Chairman.

Mr. Gibbs, you testified that there are some 340,000 churches. If churches are not required to file any statements with the Federal Government, how did you reach this figure?

Mr. Chapoton. Mr. Rangel, actually I think that was our figure, and it is not based upon any filings. I would have to investigate how we reached it.

Mr. RANGEL. From what I understand from the testimony of this panel, that any person or organization could declare themselves a church, enjoy tax exemption, and you would have no way of knowing.

Mr. CHAPOTON. That is correct.

Mr. GIBBS. Indeed, that has been one of the principal problems in the mail order ministry area.

Mr. RANGEL. Well, it would seem to me that for any amounts of monies that could be solicited publicly or privately by these churches, you would have no way of knowing whether there is any tax abuse of violation of any civil or criminal laws.

Mr. GIBBS. It is difficult unless it is somehow brought to our attention, because if the church does not file an application or an annual form, we may very well have difficulty in determining that.

Mr. RANGEL. In the search for us to find a balance in trying to protect the constitutional rights of these religious organizations, don't you believe that if you had the proper tools that we would be able to determine what constitutional rights these institutions enjoy, rather than to say what I think you are saying, and that is that you have no way of knowing who is violating the law, as well as abusing the Constitution.

Mr. GIBBS. Well, again, with the 1984 legislation, this is why perhaps some discussions between the tax administrator, the tax writing committees and the churches are important, because the mail order ministries were very prominent at the time the 1984 legislation was passed.

Mr. RANGEL. Mr. Gibbs, my time is limited. What you are saying here is that people can solicit millions of dollars and you have no way to account to the Federal Government.

Mr. GIBBS. Yes, sir.

Mr. RANGEL. And we are trying to see what we can do here in protecting constitutional rights.

Do you see where filing an annual report by churches would be in violation of the constitutional right of separation of church and state?

Mr. GIBBS. I have assumed, perhaps erroneously, that that was the reason—or certainly one of the prominent reasons—for specifically excluding them by statute in 1969.

Mr. RANGEL. Well, why did you reach that assumption? You know, it is only a congressional decision. Has any court said that you cannot put limitations on the privilege of tax exemption? We do it in unrelated taxes. We do it in lobbying. We do it in political affairs. We do it in FCC control. What in God's name could be even remotely considered a violation of the constitutional rights of churches to say that they should file an annual report as to how much money they got and what they did with it?

Mr. GIBBS. Mr. Rangel, I sincerely hope you will ask that question of the folks who testify after we do.

Mr. RANGEL. Are you a lawyer?

Mr. GIBBS. I am.

Mr. RANGEL. Well, aren't you guided in enforcing the law to avoid violating the constitutional rights of tax exempt organizations? Why should I ask the recipient of the privilege as to whether or not they think they have a constitutional right to it? We are trying to avoid infringing on any moral or legal constitutional rights that the recipients have, but your obligation is to make certain that we raise some revenue and that existing laws are not violated.

Our job is to make certain that you have the constitutional laws in order to do the most effective job that you can, and I cannot ask churches whether or not they have a constitutional right to be tax exempt, because they appeal to a higher authority than we do in the Congress. [Laughter.]

Mr. **Gibbs**. Well, that may be true, but I understand that this discussion has taken place previously at the time that the 1969 act was passed.

Mr. **Rangel**. But I was not here in 1969.

Mr. **Gibbs**. Nor was I.

Mr. **Rangel**. And neither were you. Could you tell me any reason that your staff or researchers have found as to why it could be even considered a violation of the U.S. Constitution if we required that in order to enjoy tax exemption that there must be an annual filing, a statement filed with the Internal Revenue Service.

Mr. **Gibbs**. I will be happy to provide something for the record, Mr. Rangel, on that point.

[The information follows:]

Question.—Is there a constitutional prohibition on requiring churches to file Form 990 information returns?

We are of the opinion that there is not a constitutional prohibition on requiring churches to file Form 990 information returns. For instance, currently religious organizations that are not churches are required to file Form 990 and churches, as well as other religious organizations, are subject to detailed examinations of their books and records. We believe both of these current law requirements are constitutional and, with respect to examinations of books and records, can be considered more intrusive than the filing of the Form 990. See *Christian Echoes National Ministry, Inc.* v *United States,* 470 F2d 849, 856–857 (10th Cir. 1972), cert. denied, 414 US 864 (1973); *United States* v. *Holmes,* 614 F2d 985, 989–990 (5th Cir. 1980); *United States* v. *Coates* 692 F2d 629, 633–634 (9th Cir. 1982); *Regan* v. *Taxation With Representation of Washington,* 461 U.S. 540, 546–550 (1982); and *Bob Jones University* v. *United States,* 461 US 574, 602–604 (1983).

The only constitutional problem we would forsee in this area would be if a statute differentiated between religious denominations in filing requirements in a manner that favored one denomination over another. See Bob Jones, supra, footnote 30, page 604 and Christian Echoes, supra at 857–859.

However, we do note that the religious community would undoubtedly oppose any new requirement that churches file Form 990. While they may argue constitutional concerns, they will most likely emphasize the sensitivity of requiring extensive filings by churches as well as the failure to show an adequate change in circumstances sufficient to justify the requirement.

Mr. **Chapoton**. Mr. Rangel, in our review of that, I am not sure that it is strictly a constitutional question. I agree with you that perhaps the Constitution does not run all the way up to this defense. I think though that the Congress and the courts have considered not just the constitutional question but a question of infringement upon the privacy of churches.

I have a quote from a Supreme Court decision in 1970 which comments that,

> The policy of neutrality that derives from the accommodation of the establishment and free exercise clauses has prevented the kind of involvement that would tip the balance toward Government control of church or Government restraint on religious practices.

I think it is constitutional-type issues but perhaps there are not constitutional blocks.

Mr. RANGEL. Thank you, Mr. Secretary.

Mr. GIBBS. Mr. Rangel, could I mention one other thing? I hesitate to bring this up but in light of the question—and I think your question is a very good one—I would like to read to you, as we explore this subject, from a provision that is pending at the present time over in the Senate which specifically states that,

> Any officer or employee of the United States acting in connection with any revenue law of the United States shall not knowingly make an investigation of any taxpayer which is not relevant to the determination of collection of such taxpayer's tax liability. Any person violating the preceding sentence shall be dismissed from office or discharged from employment and upon conviction thereof shall be fined not more than $10,000 or imprisoned for not more than 5 years, or both.

Mr. RANGEL. Does that include appointed officers as well as civil servants?

Mr. GIBBS. Yes, it does. And that does seem to me to cover the situation where the Internal Revenue Service would make an investigation to revoke an exemption, because that does not necessarily have anything to do with tax liability. That is a provision that is in the taxpayer bill of rights that has been introduced in the Senate. There is an exception here for investigations of organized crime. It is simply another area where we have something that seemingly is coming the other way in terms of what the rights and capabilities and authorities of an agency should be when you are investigating an area of beliefs and associations of organizations.

Mr. RANGEL. Well, my time has expired. I am not talking about investigation. I am merely talking about filing a statement so that you would be able to determine whether or not the institution, person or organization should be entitled to the privilege of tax exemption.

Mr. ANTHONY. Mr. Chairman, may I request just an additional 30 seconds?

Chairman PICKLE. Mr. Anthony.

Mr. ANTHONY. Mr. Gibbs, at one of our previous hearings we looked into lobbying activities of 501(c)(3) and I would like to applaud you in your management of revocation of an organization that had tax-exempt status and it was proven clearly that they had violated that tax-exempt status and without it waiting 6 years, you did revoke it. So I know that since you have been on board you have done a good job, and I would just want the record to show that you have taken some affirmative actions when the facts have been brought to your attention.

Mr. GIBBS. Mr. Anthony, thank you. I would also like to give credit here. Mr. Anthony, you and several other members of the subcommittee, after those hearings, asked us to consider the possibility of doing something to take some action in this area and to become more publicly visible. That is one of the reasons we have formed the Exempt Organizations Advisory Group, to provide a public forum to discuss some of these issues.

So I really thank you personally and the members of the subcommittee for your support and suggestions in this regard.

Chairman PICKLE. Gentlemen, I wish you would submit for the record, if your testimony did not show it, what you view as "reasonable compensation, reasonable salary." Also how you view the areas of cars, airplanes, charge accounts, clothing, vacation homes, guest homes, health benefits and country club membership.

One member raised a question earlier, what about an interest free loan. Is that permitted under the statutes? Is that legal? Interest free loans by a ministry.

Mr. GIBBS. Certainly, I believe that has some tax ramifications, but I do not know that it—it may well have to do with the form of the transaction. We can submit a response, Mr. Chairman, that would answer those.

[The information follows:]

Questions and Answers Regarding Compensation Where an IRC 501(c)(3) Religious Organization is Involved

Question - What is included in measuring compensation for purposes of ascertaining whether there has been a violation of the statutory requirement that "no part of the net earnings of (the organization) inures to the benefit of any private shareholder or individual?"

The terms "benefit" and "net earnings" are interpreted broadly to encompass almost any use made of an organization's income or assets by an insider, other than in an arm's length transaction in which the interests of the exempt organization are fully protected or as part of an individual's stated and reasonable compensation package.

Types of payments or benefits normally included in measuring compensation are as follows:

1. Salary or wages
2. Fringe benefits
3. Bonuses
4. Below market loans (John Marshall Law School v. United States 81-1 U.S.T.C. 9514 (Ct. Co. 1981))
5. Contributions to pension and profit sharing plans
6. Payment of personal expenses (including education, travel, home repairs, and personal household furnishings and equipment) (John Marshall Law School v. United States, supra)
7. Club membership fees
8. Personal use of club, company car, office space, etc.
9. Entertainment or expense accounts requiring no accounting (including sport or entertainment tickets)
10. Deferred but unpaid compensation
11. Free or below cost housing

See Mayson Manufacturing Co. v. Commissioner, 178 F.2d 115 (6th Cir. 1949).

It should be noted, however, that the above list is not exhaustive. The forms that inurment can take are limited only by the imagination of the insiders involved.

Question - What is "reasonable" compensation?

"Reasonable" has the same meaning under IRC 501(c)(3) as it has under IRC 162(a). See Enterprise Railway Equipment Co. v. United States 161 F. Supp. 590 (Ct. Cl. 1958). Reg. 1.162-7(b)(3) provides that compensation is "only such amount as would be paid for like services by like enterprises under like circumstances." Under 162, factors taken into consideration in making a "reasonableness" determination include: the nature of the individual's duties, the individual's background and expertise, the individual's knowledge of the organization and its activities, the size of the organization, the individual's contribution to the organization's accomplishment of its purpose, the time devoted, the character and amount of responsibility, the time of year compensation is determined, and the amount paid by similar sized business in the same area to equally qualified employees for similar services. See B.H.W. Anesthesia Foundation v. Commissioner, 72 T.C. 681 (1979); Jones Brothers Bakery, Inc. v. United States, 411 F.2d 1982 (Ct. Cl. 1964); Mayson Mfg. Co. v. Commissioner, supra.

Question - If one of the relevant factors for measuring compensation involves a comparison of compensation paid to other persons performing similar duties, to whom are TV ministers to be compared?

This is a most difficult question. The difficulties were set forth most aptly by Mr. Michael Sanders in his written statement submitted to the Oversight Subcommittee:

> "One of the problems in regard to the compensation of TV ministers is the identification of persons performing similar services -- should the compensation of TV ministers be compared to that of ministers in local churches as opposed to the compensation of TV entertainers? TV entertainers likely receive higher levels of compensation than do most hometown ministers, but using the compensation of TV entertainers as a guideline may imply that the TV minister's role is more commercial than religious."

Question - If there is a disguised distribution of an IRC 501(c)(3) organization's net earnings, can it be argued that no inurement has occurred because the recipient's total compensation, with the distribution taken into account, is "reasonable"?

The courts have dealt with this contention and have found that inurement has occurred:

> "If in fact a loan or other payment in addition to salary is a disguised distribution or benefit from the net earnings the character of the payment is not changed by the fact that the recipient's salary, if increased by the amount of the distribution or benefit, would still be reasonable." Founding Church of Scientology v. United States 412 F.2d 1197, 1202 (Ct. Cl. 1969). See also John Marshall Law School v. United States, supra, where the court's rejection of the contention contains a somewhat more detailed analysis.

Chairman **Pickle**. Mr. Thomas.

Mr. **Thomas**. Along those lines, my understanding is the code says, "a home" in two different instances. I would like a response in the area of the parsonage question, whether the courts have interpreted it as an amount of money that is appropriate so you can have a number of homes rather than a single dwelling. Thank you.

[The information follows:]

Question.—How many parsonages is a minister entitled to for purposes of the IRC 107 parsonage allowance exclusion?

Answer. Under IRC 107, a minister is entitled to exclude from the income the rental value of one home furnished as part of his compensation or the rental allowance paid to him as part of his compensation, to the extent that it is used by him to provide a home.

Chairman **Pickle**. Gentlemen, I want to thank you. Let me stress again that the purpose of this hearing is to review how you are enforcing the laws, whether tax-exempt organizations, TV ministries and or others, are complying with the laws and whether you need additional tools.

Now, both of you indicated that your job could be made easier if certain annual forms were filed. We are not asking you for your recommendation now because we are not trying to push into this area. I would think you are perfectly justified in saying we ought to hear from the ministers. It is important to see what they recommend and how they feel about the question of inurement, or the overall question of contributions.

You have a difficult job and we are going to proceed cautiously. We do not have any kind of legislative agenda. We are simply trying to find out how are we enforcing the law. So we are going to be calling on you again for further commentary about how we can cooperate and if there is a better way to go about what we are doing. We thank you both very much.

Chairman **Pickle**. Now, the Chair asks for our first witness to appear, Dr. James Kennedy. Is Dr. Kennedy here? Dr. Kennedy, if you and/or your staff or others will take a position.

Dr. Kennedy is the senior minister of Coral Ridge Presbyterian Church in Fort Lauderdale, Fla., and he is president and founder of the Coral Ridge Ministries.

Now, Dr. Kennedy, if you have a prepared statement, you may read that or you may summarize it if you wish. We are glad to have you and appreciate your cooperation.

STATEMENT OF REV. D. JAMES KENNEDY, PH.D., PRESIDENT AND FOUNDER, CORAL RIDGE MINISTRIES, SENIOR MINISTER, CORAL RIDGE PRESBYTERIAN CHURCH, FORT LAUDERDALE, FLORIDA

Reverend **Kennedy**. Thank you, Mr. Chairman and gentlemen of the Committee.

I am delighted to be able to share with you some facts about our ministry. I will try to summarize the written statement which I have provided for you and then answer any other questions you might have, and I would like then to make a brief statement of my own after that.

Coral Ridge Ministries' television outreach is wholly owned and operated by the Coral Ridge Presbyterian Church of Fort Lauderdale, Fla. It is an integrated auxiliary of that ministry and is therefore a part of our church, which has a number of different ministries, such as a school and other types of ministries.

As such, as a church, we are under the 501(c)(3) and do not file the 990 form. Coral Ridge Ministries has no unrelated business income to report, and therefore we report none. As far as the activities of our ministry are concerned, they are the same activities that are carried on by our church; namely the preaching of the Gospel of Jesus Christ and the inculcation of His teachings and the fulfillment of the cultural mandate.

As far as the governing body is concerned, it is governed by a board of 12 persons—a board of directors—outstanding business and professional men who meet monthly to consider the affairs of the ministry. This body then reports to the session of our church, consisting of about 50 elders, again, a monthly report of all financial arrangements and transactions, and they are, in turn, responsible to the Coral Ridge Presbyterian Church congregation, a congregation of about 8,000 members, which is in turn responsible to the Presbytery of Southern Florida, who is then in turn responsible to the General Assembly of the Presbyterian Church in America.

We also make reports to the Evangelical Council for Financial Accountability, the ECFA, and we have been involved in the establishment of the Ethics and Financial Integrity Commission, EFICOM, of the National Religious Broadcasters and will be a charter member of that organization as soon as it is fully organized.

As far as the reasonable income is concerned, I would like to say that our books are audited by Peat Marwick, one of the big-8 auditing firms in this country, and an audited financial statement is sent out to all of our contributors without them even having to request it.

As far as personal remuneration is concerned, that part of that audited financial statement, audited by Peat Marwick, contains this statement:

> As it relates to salaries and benefits, we ended 1986 with 109 paid employees. Dr. Kennedy is not included in this figure as he does not receive a salary, honorariums or any other compensation from Coral Ridge Ministries.

I receive a salary from the Coral Ridge Presbyterian minister like any other Presbyterian Church in this country, which salary is determined and approved by the almost 8,000 members of that church and then by the Presbytery of Southern Florida. I also receive from CRM no vacation home, no home of any sort. I receive no automobile, no jet plane, no retirement benefits, no medical insurance, no membership in any country club or any other type of remuneration. I have given to the television ministry thousands of dollars over the 9 years it has existed, traveled tens of thousands of miles and put in thousands of hours for which I have received no remuneration whatsoever, and I think that there probably are a number of Members of the Congress that might feel that that is a proper level of remuneration.

Also, I might say that if I could at this time I will be happy to answer any further questions that these gentlemen might have, and then I do have a statement of my own that I would like to make concerning this hearing.

[The statement of Reverend Kennedy follows:]

September 30, 1987

The Honorable J. J. Pickle
Chairman
Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives
1105 Longworth House Office Bldg.
Washington, D.C. 20515

Dear Mr. Chairman:

In response to your request for information about our television ministry, I enclose the following answers to your stated questions:

1. What is the classification of your television ministry organization(s) for Federal tax purposes?

   Coral Ridge Ministries - Media Outreach is owned and operated by and is an integral part of the ministry of Coral Ridge Presbyterian Church of Fort Lauderdale, Florida. As an integrated auxiliary of our church, it is tax exempt as a §501(c)(3) organization.

2. Do you file annual information returns (Form 990) with the Internal Revenue Service? Do you make financial reports available to the public? Do you undergo a regular independent audit?

   Since Coral Ridge Ministries - Media Outreach does not have any unrelated business activities, it does not file an annual 990 Form. However, the parent organization, Coral Ridge Presbyterian Church, does have some such income and, therefore, does file Form 990. Our ministry does undergo an annual independent audit by Peat Marwick Main & Co., one of the big eight auditing firms in America. The audited financial reports are sent out to all of our contributors without their having to request them.

3. In what activities does your television ministry engage? Are any of these activities considered to be unrelated business activities and reported to the Internal Revenue Service? What activities are conducted in for-profit entities?

   Our television ministry engages in the same sort of activities for which the church was established, namely: the preaching of the Gospel of Jesus Christ; the inculcation of His teachings; and the fulfillment of the Cultural Mandate. None of these activities involve any unrelated business activities or income and, therefore, are not reported to the Internal Revenue Service. Again, there are no "for-profit" activities which are conducted.

4. What governing procedures ensure that tax-deductible contributions are used exclusively for exempt, and not private, purposes?

   The Media Outreach ministry is governed by a 12 person board of directors made up of outstanding Christian business and professional men, which ordinarily meets monthly to consider the affairs of the ministry. This would include an evaluation of the annual budget and the income and expenditures of the budget to date. The board is furnished with a detailed breakdown of how all of the monies have been spent. The board of directors, in turn, reports monthly to the Session of the Coral Ridge Presbyterian Church, of which Session it is a commission. The Session, made up of about 50 elders, receives a monthly report of the ministry, including a monthly financial statement. The Session is, in turn, responsible to the congregation of the Coral Ridge Presbyterian Church; which is responsible to the Presbytery of Southern Florida; which in turn is responsible to the General Assembly of the Presbyterian Church in America. We also make reports to the Evangelical Council For Financial Accountability (ECFA) and have been involved in the establishment of the Ethics And Financial Integrity Commission (EFICOM) of the National Religious Broadcasters and will be a charter member of that organization as soon as it is fully organized.

Though I could easily have done so, I have chosen for the past nine years not to accept any salary, or any other compensation from our television ministry in order to obviate the sometimes heard criticism, "They are in it for the money." Article Five of our audited Financial Report states the following: "As it relates to salaries and benefits, we ended 1986 with 109 paid employees. Dr. Kennedy is not included in this figure as he does not receive a salary, honorariums or any other compensation from Coral Ridge Ministries." I receive a salary from Coral Ridge Presbyterian Church like any other Presbyterian minister in this country, which is determined by the almost 8,000 members of this church.

If there are other related questions which I can answer, I will do so when I appear before your Committee.

Sincerely in Christ,

D. James Kennedy

D. James Kennedy
A.B.,M.Div.,M.Th.,D.D.,D.Sac.Lit.,Ph.D.,Litt.D.,D.Sac.Theol.
Senior Minister, Coral Ridge Presbyterian Church
Founder/President, Coral Ridge Ministries

P.S. I accept your invitation to give a brief oral statement to the Committee.

Chairman **Pickle**. Dr. Kennedy, I appreciate your brevity and I appreciate your very forthright position.

Reverend **Kennedy**. I forgot one thing which I was trying to remember, and that is, I have no relatives on the board, either the board of directors or the session of the church. I have no relatives who are employees of the organization, so that all of my relatives make a total of zero out of our television ministry.

Chairman **Pickle**. Well, Dr. Kennedy, it sounds like you have a very commendable operation and I do not know that we have a lot of questions. I do have one or two, though, based on your testimony.

One, in your testimony, you said the Coral Ridge Presbyterian Church does have income from unrelated business activities and that you do file a 990-T. Can you tell me what kind of activities you have that would require you to file the UBIT form 990-T?

Reverend **Kennedy**. Several years ago the church purchased a four-story building across the street from the church because of our need for additional space, and 3⅓ floors are occupied by various ministries of our church. We still have two-thirds of the ground floor which is occupied by commercial tenants who will be moved out as soon as their leases are up, but in the meanwhile that is unrelated business income to the church—not to the television ministry.

Chairman **Pickle**. I understand.

Reverend **Kennedy** [continuing]. And as such the church does file a 990 form in regard to that unrelated business activity.

Chairman **Pickle**. Well, now, you are a member, and you may be one of the few witnesses today who is a member of the Evangelical Council for Financial Accountability. Do you feel those standards are sufficient? Should ministries abide by that or some similar standard?

Reverend **Kennedy**. Well, I think ultimately if a person wants to be dishonest, we have had people embezzle from some of the largest banks in the world. We have even, on occasion, had Congressmen who have gotten trapped in such things. I think if a person wants to be dishonest, it is going to be very difficult for any organizations to stop it.

The National Religious Broadcasters is forming an organization which is much stiffer than ECFA and has more teeth in it. I think that that should go a long, long way towards preventing anybody from doing anything that is unethical or illegal. And I am very glad to see that. We are helping to set that up and I think that that will be very beneficial. If a ministry will not subscribe to the requirements of EFICOM, then it cannot be a member of the National Religious Broadcasters. So I think it will be very easy for people to see with this new organization and all of the detailed requirements that they have—which are far beyond anything that this Congress could possibly constitutionally require—which organizations are above board.

Chairman **Pickle**. Well, I thank you. Again, your testimony is very impressive, and your operation seems to be very impressive, so we thank you.

Now, Mr. Schulze.

Mr. **Schulze**. Thank you, Mr. Chairman, and thank you, Dr. Kennedy, for your testimony. It was exemplary.

Often, when there is a problem in the stock market they go to the insiders and say, is there a lot of this going on. That is the direction I am going to take with you. We have had an awful lot of press coverage on problems in churches and TV evangelists.

Is it the tip of the iceberg or is this the exception rather than the rule? You are an insider. You know the other people. I presume you talk, have some kind of relationship. Has this thing been blown out of proportion or is this just the beginning?

Reverend **Kennedy**. As has been said, there are probably almost 400,000 churches in this country, and we have an instance of one organization which has violated these principles. I think that it is really remarkable that this has happened to only one. I do not think that this is just the tip of the iceberg. I think the vast majority of churches operate very ethically and the fact of the matter is, most preachers in this country have very low-paid positions.

I took an 80 percent cut in salary when I went into the ministry and I do not know too many people going into too many other positions where they do that. And so I do not think it is the tip of the iceberg, no, sir.

Mr. **Schulze**. What did you do before you went into the ministry, Dr. Kennedy?

Reverend **Kennedy**. I managed an organization.

Mr. **Schulze**. Is that right? Well, then you went into the ministry late in life?

Reverend **Kennedy**. Yes. I went into the ministry late in life. It could hardly be said that I went into the ministry for money. My original salary in the ministry was $4,800 a year.

Mr. **Schulze**. Dr. Kennedy, tell me about EFICOM. Do you think that we should take an extension of those sort of self-imposed rules and regulations and make them into the law, or should we leave things as they are and not start fooling around in this very tenuous area?

Reverend **Kennedy**. Well, thank you for that question. I would like to comment on that because, gentlemen, though I am delighted to share with anyone anything about our ministry, I do have some very serious reservations about these hearings, which I expressed to Chairman Pickle in my first letter.

I believe that we have here something which has a potential danger to it. I think this is a dangerous departure from 200 years of practice in this country, that for the first time in the history of the Nation that we have the Congress of the United States investigating churches. I think this is an extraordinarily dangerous precedent that is being set. I am fearful of the camel's nose in the tent, and I think we need to remember, in light of all of the other things we have heard from the IRS today, some things about our own history.

We need to remember that the Pilgrims came to this country for the single primary reason of getting away from Government interference in religion. That is exactly why they came to America, to enjoy the liberties of the gospel and freedom and peace. Also, James Madison, who as you gentlemen know well, is called the father of our Constitution said this—and I think this needs to be remembered by all of you when you consider these matters—he said this:

> There is not the shadow of a right in the general Federal Government to intermeddle in religion. The least interference would be a blatant usurpation.

Gentlemen, I think that we have heard today about a lot more than the least interference, and I believe that religious liberty is something very important in this country. Before we guaranteed the freedom of speech, the freedom of the press or the freedom of assembly, our forefathers guaranteed the freedom of religion.

Now, they say that you are not intermeddling with religion, but the IRS most certainly is. It is axiomatic that the power to tax is the power to destroy and I think that what we are seeing here is a dangerous intermeddling with the whole matter of the church.

Also I would like to say that in the case of the Jim Bakker incident it should be remembered that it was the church which discovered that. I might also point out that Thomas Jefferson said that if there are abuses in the church, they should be solved by the church or by the State and not the Federal Government. And the IRS is an agency of the Federal Government, and "what your agent does, you do."

I think, therefore, that the Federal Government is in danger of violating what James Madison said about intermeddling with religion. I also might point out that Bakker was tried by the Assemblies of God. He was convicted. He was condemned. He was defrocked and he was put out of his ministry, whereas we have some people like Gerry Studds who was involved in a homosexual scandal with a teenage page in the congressional bathroom and I understand he is still a voting Member of this Congress.

So I think the church is able to discipline itself and I think that the danger is that the Government would take over that responsibility and intermeddle in the matters of religion.

Mr. SCHULZE. Thank you, Dr. Kennedy.

Chairman PICKLE. Dr. Kennedy, I am going to recognize Mr. Anthony, but let me try to briefly clear up something for you and for the people here and anybody who might be listening.

You say that it is the first time in 200 years that we have investigated the churches. Dr. Kennedy, we are not investigating anybody. We are not investigating any churches. We are not making any recommendations. Any assumption that we are investigating churches is erroneous. We are considering only whether these charitable organizations are complying with the Tax Code. We are not getting into the question of religion.

You can quote Thomas Jefferson or James Madison and others and we agree with their statements. This hearing is not based on the question of religion and we are not going to be pushed into a corner by erroneous statements. We are trying to ask whether the organizations are complying with the Tax Code. The power to tax does not mean that we are trying to get into religion.

The Congress for decades, has said that a business conducted by a church is a tax-related question and if it is an unrelated business, it should be taxed. That is all we are trying to get into. I just wanted to make it plain that we are not investigating you or churches. We are not going to be involved in trying to answer questions about the constitutional issues of separation of church and state.

I just want to be sure that you understand the purpose and what we are trying to arrive at. We are not trying to get into, any way, the religious questions are not going to.

Reverend KENNEDY. Well, I wanted to clear the air because the newspapers said today and yesterday that this was an investigation of churches.

One other point I would like to make. I have heard about four of five times today about the privilege of the churches of tax exemption, and I think that we are losing sight there of what was the intention of the Founders. They did not look upon tax exemption as a privilege but they looked upon it as a right. The Founders of this country, who were men who believed in God, believed that the church and the state were two separate spheres and they were both under God.

However, today there are atheists and secularists—and I am not referring to you—but there are those in this country who would like to change that and they would like to put the church under the state and God has sort of evaporated into the imaginations of some believers in the church and that the church therefore must appeal to the state for the privilege of tax exemption. But the Founders of this country believed that God owned the church and that God owned the state. God is letting the Government use a lot of His real estate in America——

Chairman PICKLE. Dr. Kennedy——

Reverend KENNEDY [continuing]. And that therefore a church should not be taxed because it has a right not to be.

Chairman PICKLE. Dr. Kennedy, and we believe the same principle that you have just announced. We are simply saying that it is not any intention of this committee to get into the question of church and state. We are not investigating churches. We think churches should be exempt. We do not challenge that at all. If they say they are a church they are a church. You have not seen the Government interfere with that right, nor are we ever going to.

But if they do have some kind of business then that is another question. That is the law and has been for decades.

Mr. Anthony?

Mr. ANTHONY. Thank you, Mr. Chairman.

Dr. Kennedy, do you believe in the sanctity of the ballot box?

Reverend KENNEDY. Do I believe in what?

Mr. ANTHONY. The sanctity of the ballot box?

Reverend KENNEDY. I have never heard it put quite that way before, but if I understand what you mean, I think I do.

Mr. ANTHONY. Do you believe that voters have the right to make up their own choice as to who they would like to have to represent them in the U.S. Congress or in any other public office?

Reverend KENNEDY. Certainly, of course I do.

Mr. ANTHONY. And you as an individual have the right to speak out against that.

Reverend KENNEDY. To speak out against that?

Mr. ANTHONY. Against a particular individual being a Member of Congress.

Reverend KENNEDY. As an individual, yes, I feel I have the right to do that.

Mr. ANTHONY. Do you think that you have the right to do that as a church or as an exempt 501(c)(3) organization?

Reverend KENNEDY. Our church—none of our ministries has ever taken a position for or against any candidate. I do not think I have ever even mentioned the Democratic or Republican parties from the pulpit of our church. We do speak out on moral issues but we do not speak out on partisan political issues or on candidates.

Mr. ANTHONY. And you take it that the IRS regulations that prohibit that are proper regulations?

Reverend KENNEDY. Again, I am not so sure that the Federal Government has any authority over the church and nor does its agencies, I think however, that it would be extremely unwise for any church to be engaged in those things.

Mr. ANTHONY. Well, it is my understanding that the current law, which has not been challenged as unconstitutional, prohibits a 501(c)(3) TV ministry from participating or intervening in election campaigns on behalf of a candidate and can have no, quote, "substantial involvement in carrying on propaganda or otherwise attempting to influence legislation."

The IRS has set forth certain criteria, so although your personal opinion is that it should not be there, the truth is that legally it is in existence, so we have to comply with the existing statutory and regulatory law.

Reverend KENNEDY. I think that we need to remember that everything which is legal is not necessarily right. The *Dredd Scott* decision of the Supreme Court said that blacks were not persons, were not human beings. That was legal but it was not right.

Mr. ANTHONY. Do you feel that in your personal opinion that these regulations are wrong?

Reverend KENNEDY. I think that that is what churches should do. That is what we have always done. My objection is that I think there is a danger of the federal government taking control over the church. We need to remember that in every despotism that exists in the world today, whether it is the Soviet Union or any place else, always they put the church under the Federal Government.

In the Soviet Union the church is under the Department of Cults and is totally controlled by that Department, and I think that we need to be careful that we do not turn the IRS into a Department of Cults.

Mr. ANTHONY. Do you feel that going back and looking at your own transcripts, looking at your own programming, that you have substantial or insubstantial programming in terms of trying to influence legislation?

Reverend KENNEDY. We do not deal either with candidates or partisan issues. We deal with moral issues. We will speak out against issues which we feel are immoral, such as abortion or pornography or gambling or any such thing as that—things which have been for centuries moral issues that the Church of Christ has spoken out upon.

Now, what has happened in some instances, in California they sent statements to the churches saying, "have you spoken on any of the following political issues in the last year," and they listed abortion, homosexuality, pornography, gambling and things like that. Now, what is happening is that the Government is intruding itself into moral issues, then declaring them political and then saying that the church cannot speak about them any longer.

I think that that is a blatant usurpation, to use James Madison's words.

Mr. Anthony. Mr. Chairman, I would just like the record to show that Dr. Kennedy by name mentioned a Member of Congress, and I would also like the record to show that this Member of Congress has stood for reelection on more than one occasion and has been reelected overwhelmingly and returned to the U.S. Congress to represent that congressional district, no matter what this individual's personal viewpoint may be about that individual or any moral issues concerning him.

Chairman Pickle. The record will show that statement.

Mr. Frenzel.

Mr. Frenzel. No questions.

Chairman Pickle. No questions. Mr. Flippo.

Mr. Flippo. No questions.

Chairman Pickle. Mr. Thomas.

Mr. Thomas. Thank you, Mr. Chairman.

Reverend Kennedy, you indicated in the statement that you filed that indeed the Coral Ridge Presbyterian Church files a form 990 because there is some outside income.

Reverend Kennedy. Yes.

Mr. Thomas. I just want, for the record, to understand this. Do you believe that that is a violation of the first amendment separation of church and state or the practice of religion?

Reverend Kennedy. It probably is.

Mr. Thomas. All right. So you filed a form 990 because there is a legal requirement to do so, but you do believe it is a violation of the first amendment religious freedom?

Reverend Kennedy. I think that if it were put to a vote of the 55 men that gave us the Constitution, they would have voted against it.

Mr. Thomas. Your Media Outreach Ministry, I want to talk about it a little so I understand it better. My belief is that what you have is a very large Presbyterian church and you felt that you could expand your ministry by placing the church service on television; is that correct?

Reverend Kennedy. Yes, sir.

Mr. Thomas. Now, there are different generic origins for different types of TV ministries and one of the things I want to keep clear is your type of television ministry versus other types that we will have presented to us.

If that was the origin of your TV media approach, have you expanded that and gone beyond church service coverage?

Reverend Kennedy. We put on television our Sunday morning worship service which, by the way, we had tried to get to the public through printed sermons before that, through radio ministry for 15 years before that, and then finally on television. There are certain things——

Mr. Thomas. Reverend Kennedy, is this through a local television station or through your own broadcast facilities?

Reverend KENNEDY. No. It is through broadcast stations as well as cable networks all around the country. There are certain things we took out of our morning service that do not broadcast very well, such as announcements and the offering and such things, and we put about an 8-minute interview usually at the end of the program to fill out that time.

Mr. THOMAS. You indicated that you excerpt from the TV program the offering, which is a physical activity within the church in terms of passing the collection plate.

Reverend KENNEDY. It does not have a great deal of viewer interest.

Mr. THOMAS. Is there any segment of the program, either in the last 8-minutes or any other portion in which either a request or an opportunity is provided to the TV audience to acquire any object or materials for a donation?

Reverend KENNEDY. We probably spend about 30 seconds per hour, and we offer to them usually a book. Every week we offer generally a book, and at the time I make a financial appeal—I have not always even done this at all—but I usually say, when you write for this particular offer, remember that we are dependent upon your prayers and financial gifts for the continuation of this ministry. That is usually about the extent of my financial appeal.

Mr. THOMAS. For those individuals who attend the church service in the church itself, do they receive any gift or token for the offering that they make at the service?

Reverend KENNEDY. No, they do not.

Mr. THOMAS. Why do you feel compelled to offer something of worth to someone to send in a donation over television which in essence would be an offering to maintain the service when you do not feel the same compulsion for those people who are enjoying the religious services in the church?

Reverend KENNEDY. Well, it obviously takes a greater effort on the part of a person to take down an address and to find a letter and envelope and stamp and go to the mailbox to mail a letter, and so this is an inducement to encourage them to write to us. I should point out to you that about half of the people that write to us send no money at all and we send them whatever it is that they request.

If they request a book that we are offering, we send them the book whether or not they send any money at all.

Mr. THOMAS. I want to maintain the separation between church and state here, but a 50-percent return in terms of people writing including money from a political point of view is a very handsome return on time and effort.

My concern is just as I stated it, and let me sum it up. I think there are differences in terms of the way religions services have come to television. Yours is one which I think was an evolutionary one in terms of attempting to expand the physical institution of the church, the sanctuary itself.

My concern is that you have now changed the services in a way which requires some kind of feeling of remunerative relationship between the person watching the service as opposed to the person who is in the sanctuary itself.

That is a focus that I will continue, Mr. Chairman

Thank you very much for your testimony.

Chairman PICKLE. Mr. Dorgan.

Mr. DORGAN. Thank you, Mr. Chairman.

Reverend Kennedy, I was with you the first part of your statement and then you turned the corner and lost me someplace.

You were responding to allegations that I think were never made and to questions that were not asked. I would like to try and get at the crux of what you were trying to say to us by asking a question.

Assume for a moment that I decided tomorrow that I am a minister and I am going to buy some airtime. In my ministry I am going to go on television, preach, and ask for money. I am going to get some money and I am going to put it in my pocket. I am going to use it for my own good, to enhance my lifestyle, spend it the way I want to spend it on trips and vacations and so on.

Let's assume that this was a very aggravated case. I raised a lot of money and spent it on myself. I made no pretense of spending it for the Lord's work. What would you think would be the remedy for that kind of behavior? What should happen to me if I tried to do that tomorrow?

Reverend KENNEDY. Well, first of all, I think that we need to realize that if somebody stands out on the street corner, as they do in Fort Lauderdale and probably every town in this country, or in the airports, and holds out a bucket and has a sign of some sort and says that they want money for something, that first of all, the people who give them money have a certain responsibility to know what they are giving money to and to find out.

I would think that if a person is going to give money to something, that they have, from a Christian point of view, a responsibility to find out where their money is going and to be responsible that they do not just give it to every Tom, Dick, and Harry that says that he wants his money.

I think first of all they have a responsibility to learn where it is going.

Mr. DORGAN. How would they do that, sir? Let me just specifically say, for example, the PTL. I understand the local newspaper was trying to find out for 5 years what was happening to the money. How would the public understand what I am doing with the money if I am not required to submit a 990 report? How would they find that out?

Reverend KENNEDY. They could write and ask for a financial statement. As I say, we send out financial statements to everybody that contributes without their even asking. But they could write and ask and if they do not get a financial statement, I would not give them a penny. If they get a financial statement which obviously attempts to conceal more than it reveals, I still would not give them any money. I think that the people should have the right to do that and if they find that there is something wrong about it, then they should withhold their money.

Mr. DORGAN. Let me just again reemphasize what I think the chairman has said. I think that your characterization that somehow Congress is investigating religion is fundamentally wrong.

Reverend KENNEDY. That is the characterization of the press, if you have listened to the television or read the newspapers recently.

Mr. DORGAN. But the characterization was yours earlier in your testimony. I understand later on you said it was something you read in the press. You know, you do not always believe what you read in the press. Those of us in politics, especially, understand that. The press generally does a pretty good job, but if you read that in the press, they were wrong.

This is not an investigation. The question here is a very appropriate and serious one. Some people are soliciting enormous amounts to be used for charitable or religious purposes. How do we know, that those solicitations were proper and the representations of the expenditures were proper? Is there reporting?

I think what I hear you say is there ought not to be any reporting of any kind to anybody in an official capacity, irrespective of the tax consequences. As far as you are concerned, this is a "buyer beware" situation. Just let everybody do it and you have got the mechanisms in the private sector to self-police all of that.

I guess I am not sure I have that confidence, despite the fact that the last thing I want is our Government to get tangled up into religion. There is a constitutional barrier there that each one of us understands very, very well and that is why this is such a delicate issue.

Reverend **Kennedy**. Well, I think that, one, as we said, the people themselves should find out where their money is going. Two, I think that the churches or religious broadcasting organizations which are forming an organization which will have far more policing ability than this Congress has, constitutionally, to investigate what these people are doing, and if they get thrown out of that for noncompliance, I think that should be a very clear signal to the public that they are not worthy of their support.

You know, I appreciate that there is a problem here. But I think that there is a danger which is the loss of the first freedom that this nation was built on, the loss of religious liberty that I obviously am concerned about. I was trying to balance that over against some of the statements which I heard earlier today.

Chairman **Pickle**. The time of the gentleman has expired. Now, Mr. Rangel.

Mr. **Rangel**. Thank you, Mr. Chairman.

Chairman **Pickle**. Mr. Rangel, excuse me. I did not see Mr. McGrath.

Mr. **Rangel**. Okay. I yield to Mr. McGrath.

Mr. **McGrath**. Just a few questions.

Thank you, Dr. Kennedy, for coming and giving us your testimony. If I might just continue a thought that was given by Byron Dorgan, this is the third in a series of hearings that we have had in regards to, quote, "the 501(c)(3) exempt organizations." One was on the political activity of the 501(c)(3)s. Another was on the unrelated business income of 501(c)(3)s. And this is, I hope, the last in regard to 501(c)(3)s.

The question I have is regarding the Media Outreach Coral Ridge Ministries. Are you a television network?

Reverend **Kennedy**. No, sir.

Mr. **McGrath**. How do you buy your time for your weekly services?

Reverend **Kennedy**. Our program is syndicated. We are on 284 broadcast stations and about 15 cable networks and we have an advertising agency which buys that time for us.

Mr. McGrath. Approximately how much money do you spend annually for your airtime?

Reverend Kennedy. The television ministry this year will receive about $14 or $15 million, all of which goes to broadcasting the program.

Mr. McGrath. It all buys airtime?

Reverend Kennedy. No. Not all of it buys airtime.

Mr. McGrath. Well, how much—I asked the question, how much does it cost to buy airtime.

Reverend Kennedy. About half of it will go to buy airtime. The rest goes to all of the related expenses necessary to run the ministry.

Mr. McGrath. No argument. Should you be fortunate enough someday to acquire your own satellite and your own network and did not have the need to purchase airtime—which I understand is at a premium around the country, particularly for that many stations—would you feel that it would be an unrelated business income for the sale of airtime for other than religious purposes?

Reverend Kennedy. Yes, I would, absolutely.

Mr. McGrath. You would not find it a violation of the principle of separation of church and state to pay tax on that?

Reverend Kennedy. No, I do not. I do not believe that churches ought to go into business unrelated to the mission of the church in which they compete with private enterprise and do so with tax exemption. I think that is an unfair advantage which they should not have.

Mr. McGrath. I think I will stop there. That is a good answer.

Chairman Pickle. Mr. Rangel?

Mr. Rangel. Thank you, Mr. Chairman, and Reverend.

I would just like to find out where you draw the line. None of us here want to violate the protections that the Constitution gives churches or anything else, but if you believe that churches should not be engaged in commercial businesses without Federal interference, I assume you have no problem with the fact that there are restrictions on what churches can do politically?

Reverend Kennedy. I am not sure that when I read of what was going on in the churches in the 1770s that the Founding Fathers—by the way, what was going on then was the encouragement of the whole American independence and revolution and I am not so sure that the Founding Fathers of this country looked upon that as objectionable.

Mr. Rangel. Well, you know what is going on now. You do not find any objections to what some of the churches or so-called churches are involved in politically at this time?

Reverend Kennedy. Well, again, I have said I do not think churches should be involved in promoting candidates are getting involved in influencing legislation. I think that is unwise for churches and we do not do it.

Let me say that I do believe——

Mr. Rangel. Could you outline the role that your Government should play? After all, we are allowing people to deduct from their annual income contributions that they make to the church, and we want to make certain they do that. Now, it reaches a point that some taxpayers are going to have to pay more in taxes because these deductions are becoming more and more available to the taxpayers. We have to have some way of knowing whether deductions are legitimate.

Under the current law, all they say is it is to a church, and the church does not have to file and we do not know whether it is a church. What I am asking is, where do you believe your Government should be involved where people are abusing their church status?

Reverend **Kennedy**. A very good question, Congressman. I think that in all legal matters in this country, a person is considered to be innocent until proven guilty. Therefore, I think that if there is evidence that any organization calling itself a church is flagrantly violating the law, that they should be investigated. I think that is very different than the suggestion that has been brought up several times today, which is that we simply ask all the churches to report everything that they are doing before there is any evidence of wrongdoing whatsoever and then we will make up their mind if they are doing anything wrong.

I think this violates a number of principles of our Constitution, such as self-incrimination. And I think that——

Mr. **Rangel**. Self-incrimination?

Reverend **Kennedy**. Well, if you are asking people to voluntarily tell you if they are something wrong, I think you are asking them to incriminate themselves.

Mr. **Rangel**. Oh, no, Reverend. Please, we are assuming that you are doing God's work and we want to do God's work, too. And we cannot do it by just asking who is doing wrong out there. The assumption is that not only are the churches doing the right thing but they are proud of what they are doing and they are merely letting their Government know that when people make unfair accusations against them they can say like you say, listen, I am on record as to how much money I raised and what I am doing with it, so back off.

We in the Congress want to be there to protect this to say, do not investigate the church. They are on record as to what they have received and what they have done with it.

Now, you do it. You file these papers and you have impeccable records and you sounded a little proud of what the church was involved in. And all I am asking is why do you seem to resent other churches exemplifying that same type of pride? Certainly not self-incrimination, because you indicated, crooks are not going to file.

Reverend **Kennedy**. I think the point is that, for example, in the United States if a person is found to be doing something wrong, we come in and we arrest them and we begin proceedings against them. In the Soviet Union, for example, they go in and roust people out in the middle of the night for no reason at all. I think that is an analogy of the type of thing that we are talking about here, is that we are going to go in and require all of the churches to make all of these kinds of reports without any indication that they are doing something wrong, so that they have to prove themselves to be innocent. And I think that that is not what our law requires.

Mr. **Rangel**. Do you find the form 990 which you file in great detail—as a matter of fact, you do more than the Federal Government asks you to do in order to enjoy tax exemption—do you find the form 990 violative of your constitutional right to preach the word of God?

Reverend **Kennedy**. We only file it because of the fact that we have nonrelated business income from this building that I mentioned to you. I think that if we had no unrelated business income, if we were doing nothing but what the church is ordained to do and commanded to do, I see no reason why the church should file such reports and I think that to require it is an unwarranted intermeddling with religion, which James Madison said was a blatant usurpation of Federal powers.

Mr. **Rangel**. Let me thank you for your observations, Reverend.

Chairman **Pickle**. Well, we must go on to other witnesses. Thank you, Dr. Kennedy. Before you leave, I just want to clarify that your organization, Coral Ridge, is a church, 501(c)(3) organization, which does have UBIT and does file a 990T.

My question to you is do you object to doing that?

Reverend **Kennedy**. No, as long as the church is receiving unrelated business activity, I think that is only proper. I do not believe we should make money from a commercial renter and not pay taxes on it. I have no problem with that at all.

Chairman **Pickle**. All right. Now, you said earlier, as I understood it, you mentioned that you wanted to make a personal statement?

Reverend **Kennedy**. I inserted it amongst the questions, thank you. I have done it.

Chairman **Pickle**. Well, we thank you very much. We appreciate your cooperation.

Reverend **Kennedy**. Thank you.

Chairman **Pickle**. Now we ask Rev. John Ankerberg to please take his place at the witness stand.

Reverend Ankerberg, we are glad to have you here today. Reverend Ankerberg is the president of the John Ankerberg Evangelistic Association in Chattanooga, Tenn., and he is host and moderator of the John Ankerberg Show.

Reverend Ankerberg, we are pleased to hear your testimony.

STATEMENT OF REV. JOHN ANKERBERG, PRESIDENT, JOHN ANKERBERG EVANGELISTIC ASSOCIATION, HOST AND MODERATOR, JOHN ANKERBERG SHOW, ACCOMPANIED BY GLENN STOPHEL, FIRST CHAIRMAN OF THE BOARD AND LEGAL COUNSEL

Reverend **Ankerberg**. Thank you Mr. Chairman, members of the committee.

I am John Ankerberg and I am accompanied by Mr. Glenn Stophel our legal counsel and the first chairman of our board. I was ordained to the gospel ministry in 1973 by the Cumberland Baptist Church in Mount Prospect, Ill., part of the Baptist General Conference.

I am a graduate of both the University of Illinois and Trinity Evangelical Divinity School, having earned a master of divinity degree and a master of arts degree in Church History and the History of Christian Thought.

Since my ordination I have been active in the gospel ministry, which has included responsibilities as pastor of a church and holding evangelistic and religious services in a number of foreign countries.

I have felt the call of God to focus on a television ministry which is unique among Christian ministries. It is a program designed to give both sides of an issue and then to help the viewer draw conclusions. As such we have had participants on our program who represented major world religions, as well as organizations or groups that some would refer to as the "cults." We see our role as being one of not only teaching the Christian community, but also helping those who are not Christians to understand what Christianity teaches.

In early 1982 I began to pray about this matter at some length and discussed it with a number of Christian men whose judgment I trusted. We decided to form an evangelistic association with the sole purpose of promoting the spread of the Gospel of the Lord Jesus Christ primarily through the television ministry. I had previous experience in this kind of television ministry. Therefore we were not beginning without having background in what we were doing or understanding something about television production.

On June 1, 1982, the John Ankerberg Evangelist Association was formed by obtaining a charter from the secretary of the State of Tennessee as a not-for-profit corporation. The board of directors of the corporation is charged with the responsibility under State law of controlling the activities of the association and has done so since the beginning. Members of the board included the pastor of my church, two attorneys, a certified public accountant, a public accountant who had been a church treasurer for approximately 25 to 30 years at that time, and he agreed to oversee the maintaining of our books and records. Also, a physician who was also an author of a best-selling Christian book, an individual known for his philanthropy in the Chattanooga area, and several other individuals who were interested in seeing the program progress.

We applied for and obtained recognition by Internal Revenue Service of our tax exempt status under section 501(c)(3) of the Internal Revenue Code by letter dated May 12, 1983. Because of the amount of public support we received, on January 30, 1985, our status as a public organization and not as a private foundation was confirmed by a letter from the Internal Revenue Service. Since our receipts have exceeded $25,000 each year since we were formed, we have annually filed form 990 with the Internal Revenue Service.

As I have mentioned, a member of our board oversees the financial records of the organization and has made available to the board members copies of our financial reports. In addition, we have offered copies of our financial reports to any member of the public who requested those reports. At the end of each fiscal year our books and records are reviewed by an independent accounting firm and a report is issued to the board of directors. Financial statements for previous fiscal years were not considered certified audits because our books and records were maintained on a cash accounting basis. Recently we have agreed with our auditors and our board of directors has authorized that the books and records will be converted to an accrual basis. Future reports are to be certified. This change is effective June 1, 1987, the start of our current fiscal year.

Now, our financial statements are designed to make full disclosure about the sources of revenue and about the categories of expenditures. The staff of our ministry, as well as the board members, regularly discuss any category of expenses which seem to be out of line with our historical financial records, and various categories of expenses are closely scrutinized.

Since our ministry is engaged solely in the production and distribution of the John Ankerberg Show, which is a weekly television program aired on approximately 30 stations, including the CBN cable network, our primary expenses are for the cost of airtime and to produce and distribute the program. Since we contract for technical services and for the use of equipment owned by others, this is the major category of expense for our ministry.

Our organization has never owned a building nor has it owned any of the expensive equipment that is used for the production of television programs. It has always contracted both for the use of the equipment and for the services of those who operate the equipment, first from my own church and now with several private and/or commercial entities. Our budget, which we have printed in our newsletter and which we discussed on one of our recent television programs. Shows that for this current year our budgeted expenses are expected to be 70 percent for airtime and production expenses, 14.5 percent for general and administrative expenses, 9.3 percent for salaries, and 6.2 percent for premium expenses, all of which total $160,000 monthly.

Since the beginning of our organization, the board of directors has been responsible for setting my compensation, which is currently $37,500 per year. One criticism that I have heard about television ministries also concerns the number of family members who are involved. In our situation, my wife and I are the only members of the same family who are also members of the board of directors. The total number of directors now stands at 11.

Since our program is directed primarily to those who are not Christians, we feel that our credibility is on the line to be sure that we do operate within the boundaries, not only of the law as we understand it, but also of Christian citizenship and financial responsibility.

We therefore report fully to the board and to our public about our need for funds and our budget, as well as our historical financial records. I might say parenthetically that in the solicitations for support which are a part of our programs, we invite those who are not Christians to ignore the solicitation. Our appeal is specifically and directly to those who are sympathetic to what our program is trying to accomplish.

One of the most important roles which is played by our board of directors is to ensure that we act not only in a lawful manner, but also in a manner both operationally and financially which meets the highest standards of Christian conduct. We have members of our Board and staff alike who are familiar with accounting practices and also have an independent auditor review our books and records. We believe that these procedures help create an atmosphere in which we can assure our viewers and the public at large that we are operating in compliance with the law and with sound principles of financial responsibility.

I would be glad to answer any questions that you might have.

Chairman **Pickle**. Thank you, Reverend Ankerberg.

By comparison to some of the other ministries we have had read about or will be hearing today, your ministry seems to be relatively small. As I understand it, you have your television broadcasting programs over a certain number of stations and that is the extent of your operation.

I assume you did apply for, as you stated, 501(c) status and have received it. Do you file a form 990?

Reverend **Ankerberg**. Yes, we do.

Chairman **Pickle**. Do you object to filing a 990 form?

Reverend **Ankerberg**. I do not object since we have nothing that we are hiding and no reason that we wouldn't want anyone to have that information. But I can understand the point of the churches that in this area they are afraid that this would be an excessive entanglement of Government in religion if they had to do so.

Chairman **Pickle**. Well, has anyone connected with the Internal Revenue Service interfered with your operations in any way?

Reverend **Ankerberg**. No.

Chairman **Pickle**. None at all. Do you file a 990-T? That is, do you have any kind of revenue from unrelated business activities?

Reverend **Ankerberg**. No.

Chairman **Pickle**. So you do file a 990 and you have had no interference from any source?

Reverend **Ankerberg**. That is correct.

Chairman **Pickle**. I thank you. Mr. McGrath, do you have any questions?

Mr. **McGrath**. No, Mr. Chairman.

Chairman **Pickle**. Mr. Anthony?

Mr. **Anthony**. Thank you, Mr. Chairman.

Reverend Ankerberg, you go to great lengths to underscore in your testimony about the fact that you conduct your business with an independent board. You go to great lengths to talk about the fact that you have no relatives operated on the board or in the organization drawing salaries or benefits. You also go to great lengths to say that you have even more recently, starting on your new fiscal year of June 1, 1987, and have a certified accounting of all your revenues and of your expenditures.

Do you think that this should be the pattern that should be set in the industry?

Reverend **Ankerberg**. Yes, and not only that, but that is why we have been very strong in pushing inside of the NRB, which has 75 percent of all of the broadcasters in religion, who are members of that board, 1,300 members. We have been very vocal in advocating that we would pass a code of ethics that would be very, very strong.

Now, it has been passed by our 90-member board, and that will require—it will not be optional; it will be a requirement—that, in essence, the information that you have been talking about this morning that the Government wants, which you have a problem because of church-state, we are now as a group of religious broadcasters more concerned about this problem than you are. We are going to require of our members that they would file an outside audit; they must do that. They must submit it, and it must be made public. They must submit their finances to us. Where you have a problem figuring out what is excessive, the Christian public does not seem to have that problem.

You have to remember that, I think one of the biggest problems that Jim Bakker had was when the public found out that his salary was in the millions of dollars. So we feel that if we can take the lead, and also get involved in questions that you cannot get involved in, that we can do a better job than the Government getting involved at this point. Then you will not have the problem.

Mr. ANTHONY. I want to commend you for doing that, and I think it is a positive step: I think it is going to be a positive step.

Reverend ANKERBERG. I think it is historic.

Mr. ANTHONY. I think it will be viewed in the public's eyes as a positive step.

What, though, would be the penalty, so to speak, under the Federal law if a 501(c)(3) violates certain restrictions and it is so proven by an audit, possibly through court, they lose the tax-exempt status? What if the people never join your organization to begin with? What is your enforcement mechanism to see to it that the public is aware of those who do not choose to voluntarily do what you think they should?

Reverend ANKERBERG. Well, it is going to be public, and both of us—we in the religious broadcasters of NRB and you in the Congress—if the people are not concerned about it, neither one of us can do very much.

We depend on the people not being apathetic at this point, in getting involved, and we are saying, now, look, at the NRB we have done our part. We are going to say here is a code of ethics; as broadcasters we know what needs to be done. As Christian broadcasters, we have a standard from Jesus Christ that we insist on, and if you are going to be a Christian broadcaster, you must be a part of it.

Now, we are going to——

Mr. ANTHONY. Let me interrupt you there. I would assume that this has just not occurred in the last 30 days, that that same ethic group was there all along. So the voluntary part did not work within your organizations as they existed in the past.

My final question would be: Why do you think it will work for the future to stop what you have already publicly testified to be an abuse?

Reverend ANKERBERG. Well, before, historically it has not been required as far as being a member of NRB. We have just on September 11 passed it, and we have been working on this for a year. In light of all that has happened, the grassroots level has been more aware of the need for a requirement that has teeth in it. It cannot be optional any more as far as we are concerned. So we have made it mandatory. It was not before.

Organizations such as PTL could have belonged and did belong to the NRB because it was optional whether or not you wanted to belong to a watchdog organization. Now, it is not. Now, it is going to be interesting to see, in January this proposal that we have, the code of ethics that has gone through our 90-member board, now needs to be ratified at our convention—January 29 and the first part of February—I believe it will be.

Then you will have 1,300 members, 75 percent of the religious broadcasters in this country that have to make a decision. If you are honest, I feel, why would you not want to join, why would you not want to be a part of EFICOM? The question we want the American public as well as the Congress to know and to ask is: If you are not a part of this, why not?

Mr. Anthony. Mr. Chairman, I will just close by saying congratulations. I think it is a needed step, and hopefully the public's confidence will be regained as a result of it.

Reverend Ankerberg. Thank you.

Chairman Pickle. Mr. Flippo?

Mr. Flippo. Thank you, Mr. Chairman.

I, too, want to thank you for your testimony. It has been very straightforward. And I want to thank you for moving forward for some type of boards that will help you examine these very critical questions and arrive at a decision for them.

I would like to ask you this. I noted in your testimony that your organization, starting this year in 1987, is now going to go to the accrual basis of accounting rather than the cash method, and you will now publish an audited financial statement. I guess I would like to ask you why. Why are you now going in that direction as opposed to what you were doing before?

Reverend Ankerberg. Well, we have always had a published statement; but it was just on the cash accounting basis before. Why are we doing this? Because there is an air of skepticism in the country. I had a part in blowing the whistle. Again, it was not Congress, it was not the IRS that blew the whistle on Jim Bakker.

I wish we would have had an organization that I could have taken the evidence that was brought to me and brought it to a committee such as EFICOM and said, Gentlemen, here is the evidence. Here is a photocopy of the checks. Okay?

So what I am saying is that in light of the skepticism that is across the country that you folks have heard about and feel in your position, and we certainly feel, I am saying does it not make sense, is it not logical that we would do everything we possibly can, if we are honest, to prove that. And all the many, many religious broadcasters that are honest have been behind EFICOM because they cannot wait to prove to the people out there, listen, we do it right.

Mr. Flippo. Yes, I appreciate that. I think the questions that were raised out there caused you to take some action. Those are the same reasons that have caused us to want to reexamine this situation.

I assume you do not have any objections to us re-examining this situation.

Reverend Ankerberg. No. I think that because of public pressure you must look into the question. And, of course, we are coming to you saying, hey, we are more aware of it than you are and we have already taken steps; and because of the sensitive issues of church-state, we can ask questions theologically that are involved, and that you cannot ask, and I think we need to bring up.

Mr. Flippo. I think that is why we appreciate the fact you are moving in that direction.

Let me ask you, though, even your organization that you are forming now will have to deal with some very difficult questions of whether or not some certain activity is related to its tax-exempt function or not related. How do you think your board or your own board, how do you approach whether or not a particular action is unrelated to your tax exempt? What criteria do you use?

Reverend ANKERBERG. I will let Glenn say a word here in a moment. But the way I see it, without being a lawyer, without being a businessman, just being a preacher, it is better help in service, is it better help in terms of our purpose, which is basically to win people to the Lord Jesus Christ, to present the evidence, and then to help those that have become Christians in the faith. Everything that we do revolves around those two purposes. And if it is not, then the board questions it.

Glenn, maybe you would have a further comment.

Mr. STOPHEL. I like that.

Reverend ANKERBERG. You like that, too. Okay.

Mr. FLIPPO. What I am saying is that the questions that we are wrestling with as to whether or not activity is going on that is unrelated to the purpose of the tax exempt organization. That is the same area that you will have to investigate, too, and the board will have to make judgments on. I hope we can continue to share information as to what those are, because there are some great controversies involved in that.

Reverend ANKERBERG. EFICOM, by the way, has hit that topic right on the head by saying that, again, what your charter to the IRS says, what your purpose is, it better be understandable to some other Christians.

Mr. FLIPPO. Very good.

Reverend ANKERBERG. You better understand that purpose as well.

Mr. FLIPPO. Again, I thank you for your testimony.

Reverend ANKERBERG. Thank you.

Chairman PICKLE. Mr. Rangel?

Mr. RANGEL. Thank you, Mr. Chairman.

Reverend, you have made our job a lot easier than I thought it would be when we started these hearings, because you have created an atmosphere of friendship and partnership and still kept that separation of state and church the way we would want.

As a matter of fact, you even have gone further by indicating that you have a higher standard than that that has been set out by the IRS.

Reverend ANKERBERG. Exactly.

Mr. RANGEL. And that you believe through peer pressure that you can ask questions and demand standards that perhaps would be unconstitutional for us to get involved in.

You did say, however, that once the NRB did set these standards and religious broadcasters had indicated that they do not want to become a part of that ethical standard, that then perhaps the Congress should take a look at them as well as the contributors and Americans or the public generally.

What would you allow the Congress to do without violating the constitutional protection of churches?

Reverend **Ankerberg**. Congressman, I think you have got a hard road to go, and I think that we have got to take the lead in this area. Again, both of us depend on the public asking the hard questions.

Obviously, if there is a group of supporters out there that do not mind their leader getting a $3 million salary a year, and they all vote on it and the board, and they may have 50 people on the board and they say, yessirree, that is our theology and here is our leader, give it to him. Now, that is a tough one for all of us.

We are saying under Biblical Christianity the requirements for leadership has a clause in there, in Titus and in Timothy, that the leader, the pastor, must not have a love for money, and he should be a servant to the people. Now, that is part of our standard that we got from a higher authority.

We are saying in the Christian Church we think that we can figure out what excessive means.

Mr. **Rangel**. Reverend, I do not want to get involved in that. That is even more difficult down the line for us. But assuming that one of the groups raised $2 or $3 million and they said they were going to help the famine in southern Africa, and you asked them just report what did they do with the money. And they say, "it is just none of your business what we have done with the money; we are not going to register with you or anyone else."

Now, you have to appreciate the fact that we are elected to make certain that those people who have given the money were able to deduct. We do not just stand by. We encourage people to give their money. Now, they will not abide by your rules. People contribute it and they have deducted the money, and we do not know what they have done with the money.

What would you have your Government do?

Reverend **Ankerberg**. I would like Glenn to speak to the second part of it. Let me speak to the first part. That is, that through the NRB Code of Ethics that is now on the table, we are going to ask the American people if a religious broadcaster will not join with 75 percent of all the other religious broadcasters in making that information known, because you have got that question, and the American people as a result of the PTL affair have that question, then why? There is no reason——

Mr. **Rangel**. They have already told you: Reverend, it is none of your business. It is a ripoff. They got a tax deduction, and that is what they are doing.

Reverend **Ankerberg**. Let us take it step by step.

Mr. **Rangel**. And they are getting support from it because they are so good on television people just feel good sending them money.

Reverend **Ankerberg**. A, they will not be a part of NRB.

Mr. **Rangel**. Great.

Reverend **Ankerberg**. B is that we will say, Do not support them in the sense that——

Mr. **Rangel**. That is good. But what would you have us to do?

Reverend **Ankerberg**. They are not responsible to the public financially.

Mr. **Rangel**. There is no question about that.

Reverend **Ankerberg**. Glenn, you can say the third part there.

Mr. **Stophel**. On that question, of course, we are a religious association and not a church, and we are subject to audit and our books and records are——

Mr. **Rangel**. I am talking about those that do not file anything. They just got the money. They are on television. They refuse to join in with your organization. And, they have told you it is none of your business. And you have told the general public they will not join. We are giving tax deductions to everybody who claims it as they give to this church.

I just want to find out, after you have done all that you can with the higher authority, what would you allow us public servants to do to make certain we protect the vast overwhelming majority of people that are doing God's work? What tools will you give us to work with?

Mr. **Stophel**. Having been in tax practice for 25 years and having been one of the counsels involved with one of the churches that resulted in the Church Audit Procedures Act, I think that there are sufficient tools available. And just as the IRS representatives indicated, the tools are there, Congressman. We do not need more laws in this country on this subject, I do not think, from my experience.

Mr. **Rangel**. How would you know if the church does not have to file what it has received? How would we know what to do?

Mr. **Stophel**. Congressman, is it the viewpoint of the Government that they should tell people how to spend their money if they pay tax on it?

Mr. **Rangel**. I am talking about people who do not pay taxes, and they have given a million dollars to your church and your church has not filed anything. I am determining whether or not your contributors are entitled to tax deduction.

Mr. **Stophel**. We think that those people who contribute are better able to tell what the organization is and what it does than is the Government if it is a church, because there are——

Mr. **Rangel**. I see your standard is much lower than the NRB if you are just saying that as long as the people feel good then the Federal Government should allow the deductions.

Mr. **Stophel**. It is not a good feeling. As Dr. Kennedy said, I believe that people have a responsibility to find out what they are giving to, and——

Mr. **Rangel**. People do not have the responsibility to determine tax deduction. We do.

Mr. **Stophel**. That is correct. I agree with that.

Chairman **Pickle**. Thank you, Mr. Rangel.

Dr. Ankerberg, before you leave, I think we would all agree with you that we are very pleased to see the National Religious Broadcasters set up their code and finally agree on it. That is very desirable, and I think that will be very helpful. We are going to hear from them later on this afternoon. Some of the same questions you have been asked will be asked of them. I think you are correct in putting emphasis on that organization or any similar organization.

The question I would ask, though, is whether you are saying that if you do belong to the NRB that you do not have to then comply with the Federal Tax code.

Reverend **Ankerberg**. No, I am not saying that.

Chairman PICKLE. You are saying that if they do belong they still must abide by the Federal tax code?

Reverend ANKERBERG. Absolutely. I am saying that we should go the extra mile in clearing the air.

Chairman PICKLE. All right.

Mr. ANTHONY. Mr. Chairman, would you just allow 30 seconds for one quick question?

Chairman PICKLE. All right, Mr. Anthony.

Mr. ANTHONY. It follows up on what Mr. Rangel was talking about, and it is a recommendation on page 8 of Treasury's testimony. It is talking about the unreasonable compensation by a tax-exempt organization, and you brought it up basically by saying it was something that the people should decide.

Treasury has recommended, though, in their testimony that for compensation above an absolute dollar amount, for example, unanimous approval either by nonemployee members of the organization's governing board or by a compensation committee composed of disinterested persons could be required.

Does that make logical extension to try to resolve the abuse in this area?

Reverend ANKERBERG. Yes. I think it comes back to the people in the Christian Church as well as fellow Christians as they look at that. Obviously, we realize a pastor that has a church of 50 will get one salary versus a pastor that has a church of 5,000, a pastor in New York City versus a pastor in Kansas. The geographical area and the responsibility is different. But I think that there is a cutoff point, and I think the people recognize that cutoff point. If people understand what it is, this is what they did not know at PTL, could they have functioned if they had known that Bakker was getting $3 million? I do not think so.

I think that even in his own circle that was the thing that broke the camel's back.

Mr. ANTHONY. Thank you very much.

Chairman PICKLE. Mr. Ankerberg, we thank you very much. Your testimony has been helpful.

Now, the Chair would ask that Rev. Jerry Falwell please join us at the witness table.

Dr. Falwell is president of the Old-Time Gospel Hour of Lynchburg, Va., and is pastor of the Thomas Road Baptist Church and is now chairman of the board of the PTL.

Dr. Falwell, I want to personally thank you for your attendance and your coordination and cooperation with us as we prepared for these hearings. Let me say at the outset that all the members of the minority are not here today, and they are not boycotting you. They have an important session on a tax matter. They are going to try to rejoin us as soon as they can. They wanted you to understand that they are not just staying away, by any means.

We are very pleased to have you here and recognize you as one of the great leaders of our time in the religious field. We appreciate your presence and would like to hear your testimony.

STATEMENT OF REV. JERRY FALWELL, PRESIDENT, THE OLD-TIME GOSPEL HOUR, LYNCHBURG, VIRGINIA

Reverend FALWELL. Thank you, Mr. Chairman and members of the committee. I am going to just summarize since you have in detail the printed copies that we have submitted of our testimony.

I am president of the Old-Time Gospel Hour, which is not a church. It is a 501(c)(3) that does file a 990 and, on a rather negligible issue, also a 990-T, which I will get into in just a moment.

I am the pastor of Thomas Road Baptist Church which is not required to file a 990, but we have elected to include a consolidated financial when Coopers & Lybrand, our auditors, annually do our financial audit. It is a consolidated statement which includes the Thomas Road Baptist Church, and these financials are available to all donors upon request and this year without request.

I am also, unfortunately, the chairman of PTL for a self-imposed tenure of 1 year, and I will do my best to answer for anything that has happened since March 20, 1987, and assume no responsibility before that date.

The Old-Time Gospel Hour is a nonprofit corporation, and it is incorporated under the laws of the Commonwealth of Virginia. It is charitable; it is religious; it is educational in nature. The board of directors is comprised of the following persons: Dr. A. Donald Norman, who is a Lynchburg minister and a member of our staff; Mr. Claude P. Brown, who is the owner and president of Brown Trucking Co. in Atlanta; Mr. J. Marion Compton, a lumber man in Charleston, W. Va.; Dr. Jerry Nims, who is an entrepreneur from Atlanta, Ga., and has served in staff capacities from time to time with our ministry; Mr. Nelson Bunker Hunt, chairman of the Hunt Energy Co. in Dallas, Tex.; Mr. Jerry Lipps, who is the owner of Lipps Trucking in Cape Girardieu, Mo.; Mr. Donald Hershey, who is a businessman in the Hershey, Pa., area, chairing a number of companies, among them Hershey Equipment Co.; Mr. Dewitt H. Braud, who is a developer in Baton Rouge, La.; and Mr. George Rogers, our chief operating officer for Old-Time Gospel Hour; and, of course, myself.

The board of directors is ultimately responsible for all of the ministry's activities and for establishing the administrative and operating policies that govern these activities.

I am going to give you just a brief resume of what Old-Time Gospel Hour does and why we exist, a few words about accountability and internal controls, and then entertain questions.

The programs and the related ministries of the Old-Time Gospel Hour are—and this is not all-inclusive, but here are some of those ministries: The Old-Time Gospel Hour, which is a Sunday morning service from the Thomas Road Baptist Church, which for 31 years we have broadcast, television cameras have looked in on and carry to the Nation, and outside the country. This is a 1-hour program, usually 3 weeks delayed by videotape and seen on 392 stations, 50 less than that, Congressman McGrath, as of an order we have just given, and I will get into that in a few moments;

The Pastor's Study is a weekday 1-hour television program that highlights Bible study, interviews with Christian personalities and gospel music;

The Fundamentalist Journal magazine, a monthly, presenting religious and educational articles about the fundamentals of the Christian faith and their importance to our families and society. We have about 50,000 paid subscribers;

The Liberty Home Bible Institute, which is a 2-year crash program through the English Bible, primarily attended by adults. It is a correspondence program with 24,000 students nationally; actually, internationally;

Then Liberty University, a 7,500-student—closer to 8,000—university offering fully accredited undergraduate and graduate degrees to students from 50 States and 34 nations;

Lynchburg Christian Academy, which provides a day-care, kindergarten, elementary and high school program for basically local children in the Lynchburg area, more than 1,000 students enrolled;

The Elim Home for alcoholic men, which for 29 years has without charge offered a ministry to alcoholic men who come there seeking permanent help. Sixty percent of those who have come have never reverted to their former lifestyles, and we employ the Gospel of Christ counseling and vocational training as a part of that ministry;

The Liberty Prison Outreach, which is a visitation ministry in the jails and prisons of central Virginia, and a literature and Bible distribution ministry in 15 central Virginia jails and prisons;

The Family Center, which provides food, clothing and medical services without charge to an average of 80 families per month in the Lynchburg area, a majority of whom are not members of Thomas Road Baptist Church;

The Liberty Godparent Home, which is a maternity home for unwed teenage girls. It is a counseling center. It is an adoption agency. There is no charge. We opened in January of 1982. We have now started many such homes across the Nation and are involved in a nationwide referral network to work with some 621 such homes, providing through out hotline counseling ministry an 800 WATS line in Lynchburg where thousands of calls come annually from generally pregnant girls who are frantic, needing help and looking for an alternative to abortion;

We also have a counseling center which last year, without charge—and these are professional counselors. We have had psychiatrists on the staff, and we have professional psychologists, all Christians, who without charge last year held over 6,000 counseling sessions on site, about 2,000 more in depth by telephone, and providing emotional and spiritual help to persons with various problems;

We have a deaf ministry. It is the largest in the country. On every television program for Old-Time Gospel Hour, we have a deaf interpreter who communicates the message to the nonhearing. We also have a toll-free TTY line which has, for years, provided a means whereby deaf persons may communicate by telephone for emergency needs, counseling needs, spiritual needs, whatever; again, without charge;

Then for years we have operated camping ministries, such as Treasure Island. That is for children, many of whom are underprivileged. Treasure Tech, that is a computer camp; that is big stuff these days. Liberty Campground for teenagers and this primarily serves central Virginia children;

Then we have the Liberty Broadcasting Network we purchased in January 1986. It is a very small cable network that we are developing, much on the order of a CBN or WTBS-type network. We hope it will become that. A 24-hour Christian television network offering religious and family programming;

We own a radio station, a 50,000-watt FM Christian station that covers about a 100-mile radius of Lynchburg, 24 hours, totally Christian. It is actually owned by Liberty University;

Then we conduct, and have for years, inner city student missionary projects in the major cities of this country. We go in with our students in the summer and holiday seasons usually working with minority churches, Hispanic, black, et cetera. Our students live in the homes of those members without charge, serve those pastors in churches as a part of their missionary internship while students at Liberty University; cities like New York, we are active in the Harlem area, out in Los Angeles with Dr. E.V. Hill. We have a pastor in every area who coordinates our activities and is in charge there when our students spend their summers with them;

We are involved in foreign missionary work in 66 nations, and presently the Kenya Project is a 10-year commitment we had. It began in Sudan. We moved, because of political pressures and dangers to our students, across the border and now into Kenya. It's a long-term ministry and relief outreach to the Turkana tribespeople of Kenya;

Then the list goes on.

In the area of accountability, as I have said, we file form 990 annually. Financial audits are conducted by Coopers & Lybrand, an independent Big 8 public accounting firm. These audited financial statements, prepared and audited in accordance with generally accepted accounting principles and generally accepted auditing standards, are available upon request to all donors and reputable—I notice they changed that; I put "valid"—valid news organizations. That would exclude Penthouse, Hustler and others that we do not consider valid. A copy of our audited financial statements for the fiscal year ending June 30, 1986, was enclosed in the report we gave to you. We gave you an internal P&L sheet for 1987. And the audited statements should be prepared within 30 days and will be made, for the record, available to this committee.

As regarding internal controls, in addition to the external audit, we have numerous internal controls in existence to ensure that ministry funds are protected from unauthorized use. Bank accounts require two signatures on all disbursements, and I am not a signature on any account. Two authorizations are required for wire transfers. A detailed budgetary system is employed and constantly monitored by the chief executive officer, three Old-Time Gospel Hour vice presidents, and the comptroller. A wage and salary administration program is in place to maintain equity and promotions and pay levels. Coopers & Lybrand is consulted on internal control procedures. The Ministry Coordinating Committee—and, Mr. Chairman, these are persons representing Liberty University, Liberty Broadcasting Network, the church, the academy, the Old-Time Gospel Hour, every ministry in which we are involved, this committee meets twice a month to review operational and budgetary matters.

Finally, the board—and I might add boards of directors, because the university, being accredited, has its own board; the church has its board of deacons. The board review the ministry's finances at each board meeting. In summary, the annual independent audit, the existing internal controls, and the reports to the boards of directors—not to mention regular public scrutiny—serve to ensure that Old-Time Gospel Hour's financial dealings are fully accountable to the public.

Now, we do have some unrelated business activity. It is not material, but we sell advertising in our magazine, The Fundamentalist Journal. We occasionally rent the ministry airplane to Moral Majority or Liberty Federation at fair market rates for which we file our IRS Form 990-T and pay tax. For example, for the fiscal year ending June 30, 1986, we paid tax of $2,063 on these activities and feel that we should pay such taxes.

I would like, in conclusion, to make several comments before accepting questions. First of all, I do feel that this committee is in order doing what you are doing. I feel that it is your business to look at what has become a major Watergate for all of New Testament Christianity in our country; namely, the PTL situation. I also understand you are walking a tightrope, and I perceive from listening to what I have heard that you are as nervous about this as we are, because there is a lot at stake for all of us, not just for a few broadcasters. We are peanuts compared to the $300 billion in tax-exempt funds and revenues that are received by 900,000 tax-exempt organizations in this country. But we are a noisy peanut, and for that reason we are here today and fully understand why we are here today.

I listened to Dr. Kennedy, and I would say amen to all the concerns he has. I think in your heart you are saying amen, too, except it is your job to do what you are doing, and you do not have any alternative but to do what you are doing.

I think it is important to say I am a member of the board of National Religious Broadcasters, as is Dr. Kennedy. A little later, you will have our executive director, Dr. Ben Armstrong, on a panel who I believe you prefer to go into all the details of EFICOM. But I have them here if you would like to have all the standards that are being proposed and that our board on September 11 ratified.

It is important to say that we have been working for one year on this, not just since PTL. We probably are a few years behind, but at the same time PTL was not the catalyst which precipitated the self-policing. It certainly has been a catalyst to expedite our self-policing. And we are all embarrassed. It would be a mistake for us to say that we are not embarrassed by what has happened.

I suspect when the grand jury that is in session in South Carolina has completed its work there will probably be further embarrassment, unfortunately. I am sure that this is not the first problem we will ever have inside Christendom. We go back to the Palletine Fathers some years ago; we come now to the Protestant problem; and we have to acknowledge, as long as we are dealing with human beings, we are going to have problems. I do not think that you could have 535 Congressmen or 400,000 pastors in this country without all of us knowing that we will always have problems, and that does not mean the system is bad.

I think that where we need to be careful is in the area of overreaction and legislation, in my opinion unneeded, unnecessary, that we will all later regret. I like the statement of Reverend Ankerberg a moment ago. I wish all the churches voluntarily would file a 990 or at least voluntarily make their financials public, willingly, without being asked. But I would oppose the churches and synagogues being compelled to do so, because the term that Reverend Ankerberg used is a term the Supreme Court has used, "excessive entanglement," and Dr. Kennedy used the camel's nose in the tent.

I think that you will find an uproar that none of us could handle if we begin suggesting that 400,000 churches and synagogues be compelled to file 990s. If every member, every church in America, every synagogue in America, every media ministry in America were a member of NRB, and now, come January, EFICOM, by mandatory requirement, and the Better Business Bureau, and if this Congress had, in fact, compelled long ago 990s of everybody, you would not have prevented Jim Jones or Jim Bakker from doing what they did. That would not have stopped it.

Information is important. How to reach after and get that information, I am not smart enough to sit here and tell you I know the answer. You would not be any more presumptuous, or you would not be holding the hearings right now. But I would hope that respectfully, together, all desiring the same end, we can achieve the goal within 5 years from now looking back and saying, Boy, we moved too quickly.

Those are my comments.

[The statement and additional material supplied by Reverend Falwell follow:]

TESTIMONY
before the
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

by

JERRY FALWELL
PRESIDENT
THE OLD-TIME GOSPEL HOUR
Lynchburg, Virginia

Mr. Chairman & Members of the Subcommittee:

My name is Jerry Falwell. I am President of the Old-Time Gospel Hour and the Pastor of the Thomas Road Baptist Church in Lynchburg, Virginia.

Although I have been sorely disheartened by the revelations of the past year that have resulted in these hearings, I am pleased to have this opportunity to testify before you today. I hope that you will find the information helpful in carrying out your responsibilities in overseeing the work of the Internal Revenue Service, and, at the conclusion of my prepared remarks, I will be pleased to answer any questions you may have.

Corporate Structure

Old-Time Gospel Hour is a non-profit corporation, incorporated under the laws of the Commonwealth of Virginia on October 16, 1967 for charitable, religious, and educational purposes. Its purposes are to spread the gospel of Jesus Christ and persuade men and women in every community of the World to accept Jesus Christ as their Lord and Savior.

Board of Directors

The members of the Board of Directors of Old Time Gospel Hour are Rev. A. Donald Norman, Mr. Claude Brown, Mr. J. Marion Compton, Dr. Jerry C. Nims, Mr. Nelson Bunker Hunt, Mr. Jerry Lipps, Mr. Donald Hershey, Mr. DeWitt Braud, Mr. George W. Rogers, and myself.

The Board of Directors is ultimately responsible for all of the ministry's activities, and for establishing the administrative and operating policies that govern these activities. Although I am a Director, in my capacity as President of the ministry, I am also accountable to the other members of the Board for faithfully implementing the policies adopted by the Board.

Exempt Status

Old-Time Gospel Hour has been exempt under §501(c)(3), as a religious, educational, and charitable organization, since its establishment in 1967. Although we were not required to file an application to be recognized as exempt, we did so in 1975, and the ministry's exempt status was recognized by the IRS in a letter dated May 28, 1975.

Old-Time Gospel Hour has never been exempt as a church, and for that reason, has always timely filed Form 990, an annual information return, with the IRS.

Programs and Related Ministries of Old Time Gospel Hour

Old-Time Gospel and its related ministries -- Thomas Road Baptist Church, Liberty University, Lynchburg Christian Academy, and Liberty Broadcasting Network -- conduct the following religious, charitable, and educational activities:

- "The Old-Time Gospel Hour", a production for television of the weekly morning worship service of Thomas Road Baptist Church.
- "The Pastor's Study", a weekday one-hour television program that highlights Bible study, interviews with Christian personalities, and gospel music.
- The Fundamentalist Journal, a monthly magazine presenting religious and educational articles about the fundamentals of the Christian faith and their importance to our families and society. Over 50,000 homes and offices receive the Journal.
- The Liberty Home Bible Institute, a two-year programmed course of study of the Bible by correspondence. LHBI currently enrolls nearly 24,000 students.
- A 7,500-student university offering fully-accredited undergraduate and graduate degrees to students from all 50 states and 34 foreign countries.
- Christian education, through Lynchburg Christian Academy, from kindergarten through twelfth grade.
- Elim Home for alcoholic men, which for 29 years has served without charge to rebuild the lives of men seeking help for their addiction. More than 100 men pass through Elim Home each year -- 60% of whom are successful in turning their backs on alcohol.
- Liberty Prison Outreach, which distributes Bibles, and ministers spiritually, to inmates at 15 central Virginia jails and prisons.
- The Family Center, providing food, clothing, and medical services without charge to an average of 80 families per month in the Lynchburg area.

- "The Liberty Godparent Home", a maternitiy home, counseling center, and adoption agency where unwed girls may come without charge to receive care and counseling during pregnancy or receive help over a toll-free telephone line. Liberty Godparent Home also uses a nationwide referral network of counseling centers and homes.
- The Counseling Center, which last year, without charge, held over 6,000 counseling sessions on site (and 2,000 more over the telephone) with individuals and families needing emotional or spiritual help.
- A deaf ministry with toll-free "TTY" lines for the hearing-impaired.
- Camping ministries, such as Treasure Island, Treasure Tech, and Liberty Campground, for central Virginia children.
- Liberty Broadcasting Network, a national 24-hour Christian television network offering religious and family programming.
- WRVL, a 50,000-watt FM Christian station reaching residents within a 100-mile radius of Lynchburg (including Roanoke and Charlottesville, Virginia).
- Inner city student missionary projects, such as those in New York, Philadelphia, Chicago, Los Angeles, and Jackson, Mississippi.
- Foreign missionary work, such as "The Kenya Project", a long-term ministry and relief outreach to the Turkana tribespeople of Kenya.

This is not an exhaustive list, of course, but it does serve to illustrate the kinds of things we are trying to accomplish.

Accountability

In addition to filing Form 990 annually, annual financial audits are conducted by Coopers & Lybrand, an independent "Big Eight" public accounting firm. These audited financial statements, prepared and audited in accordance with generally accepted accounting principles and generally accepted auditing standards, are available upon request to all donors and reputable news organizations. A copy of our audited financial statements for the fiscal year ending June 30, 1986, as well as an internally prepared revenue and expense statement for the fiscal year ending June 30, 1987, has been provided for your reference, and you are welcome to print it in the record of these hearings. Our audited financial statements for the fiscal year ending June 30, 1987, should be available within 30 days, at which time we would be happy to provide a copy to the Subcommittee.

Internal Controls

In addition to the external audit conducted by Coopers and Lybrand, numerous internal controls exist to insure that ministry funds are protected from unauthorized use. Bank accounts require two signatures on all disbursements (I am not a signatory on any account.) and two authorizations are required for wire transfers. A detailed bugetary system is employed and constantly monitored by the chief executive officer, three OTGH vice presidents, and the controller. A wage and salary administration program is in place to maintain equity in promotions and pay levels. Coopers & Lybrand is consulted on internal control procedures. The Ministry Coordinating Committee meets twice a month to review operational and budgetary matters. The Board of Directors reviews the ministry's finances at each Board meeting.

In summary, the annual independent audit, the existing internal controls, and reports to the Board of Directors -- not to mention regular public scrutiny -- serve to insure that Old-Time Gospel Hour's financial dealings are fully accountable to the public.

Unrelated Business Activities

We are not engaged in any material unrelated activities. We do sell advertising in the Fundamentalist Journal and occasionally rent the ministry airplane to Moral Majority at fair-market rates, for which we file IRS Form 990-T and pay tax. For the fiscal year ending June 30, 1986, we paid tax of $2,063 on these activities.

In general, I agree that exempt organizations should pay tax on their profits from regularly conducted business activities that do not substantially advance their exempt purposes. This is, as I understand it, the current legal standard, and I see no need to change the law. As this Subcommittee heard in June, it may be necessary for the IRS to increase its audit activity in this area to ensure that exempt organizations, including religious ministries, are properly reporting and paying the unrelated business income tax.

Conclusion

Mr. Chairman, I believe that the Internal Revenue Service is performing creditably in its work of ensuring that the 900,000 tax-exempt organizations in America are truly benefitting the public. For 31 years, Old-Time Gospel Hour has always operated to that end. We fully realize the responsibility of financial accountability; consequently, we will continue to fully disclose our financial activities to our donors and the public.

Mr. Chairman, you have announced that you don't know whether the Subcommittee will make any legislative recommendations as a result of this hearing. Should the Subcommittee decide to make some recommendations, we would be pleased to work with you and your staff to develop proposals that are both tailored to the problems that exist, and that respect the Constitutional guarantees that all persons may freely exercise their religion.

Mr. Chairman, this concludes my prepared statement, and I will be happy to respond to any questions that you or other Members of the Subcommittee may have. I thank you for the opportunity to testify today.

THOMAS ROAD BAPTIST CHURCH AND RELATED MINISTRIES

REPORT ON EXAMINATION OF CONSOLIDATED FINANCIAL STATEMENTS

for the year ended June 30, 1986

Coopers
&Lybrand

Certified Public Accountants

CONTENTS

	Pages
Accountants' Report	1
Financial Statements:	
Consolidated Balance Sheet	2
Consolidated Statement of Unrestricted Operating Fund Revenue and Expenses	3
Consolidated Statement of Changes in Fund Balances	4
Notes to Consolidated Financial Statements	5-14

Coopers
&Lybrand

certified public accountants

Thomas Road Baptist Church
  and Related Ministries
Lynchburg, Virginia

We have examined the consolidated balance sheet of Thomas Road Baptist Church and Related Ministries as of June 30, 1986, and the related consolidated statements of unrestricted operating fund revenue and expenses and changes in fund balances for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in Note 11.b. to the consolidated financial statements, management has instituted programs to extend the Ministries' contribution base and to contain costs. Additionally, in recognition of the Ministries' current level of annual debt service requirements, principally attributable to the funding of significant capital expenditures, and the impact of such funding upon current operating funds, management is negotiating with its underwriters to effect a restructuring of the Ministries' mortgage debt to obtain more favorable interest rates and repayment terms.

As set forth in Note 10 to the consolidated financial statements, the Ministries are party to legal actions involving a contested liability. It is not possible at present for the Ministries to predict the outcome or potential loss, if any, resulting from this matter.

In our opinion, subject to the effects on the consolidated financial statements of adjustments that might have been required had the outcome of the matter referred to in the preceding paragraph been known, the consolidated financial statements referred to above present fairly the financial position of Thomas Road Baptist Church and Related Ministries at June 30, 1986, and the unrestricted operating fund revenue and expenses and changes in fund balances for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers + Lybrand

2306 Atherholt Road
P. O. Box 10189
Lynchburg, Virginia 24506
October 24, 1986, except for Note 11.c.,
as to which the date is December 18, 1986

THOMAS ROAD BAPTIST CHURCH AND RELATED MINISTRIES

CONSOLIDATED BALANCE SHEET

June 30, 1986

	Expendable Funds				Non-expendable Funds		
ASSETS	Operating	Loan	Total	Plant Funds	Endowment and Similar Funds	Deferred Giving	Total All Funds
Cash and temporary cash investments, restricted	$ 616,972	$31,542	$ 648,514		$ 99,078	$ 17,531	$ 765,123
Accounts receivable, less allowance for doubtful receivables of $531,000	1,870,329		1,870,329				1,870,329
Investments, principally real estate, carrying value approximates market	14,500		14,500		11,000	879,615	905,115
Notes and other amounts receivable from operating funds					637,634	1,418,163	884,146*
Inventories, bookstores	695,308		695,308				695,308
Notes receivable, less allowance for doubtful receivables of $10,000	982,555	7,965	990,520				990,520
Prepaid gift offers	1,775,548		1,775,548				1,775,548
Other prepaid expenses	1,896,902		1,896,902				1,896,902
Property, plant and equipment				$81,272,259			81,272,259
Deferred charges	400,000		400,000				400,000
Total assets	$ 8,252,114	$39,507	$ 8,291,621	$81,272,259	$747,712	$2,315,309	$ 91,455,250
LIABILITIES AND FUND BALANCES							
Bank overdrafts	1,046,429		1,046,429				1,046,429
Accounts payable and accrued liabilities	11,065,189	10,712	11,075,901	5,024			11,080,925
Deferred student fees	2,459,152		2,459,152				2,459,152
Notes and other amounts payable to deferred giving and endowment and similar funds	2,055,797		2,055,797				884,146*
Mortgages and other debt	9,273,506		9,273,506	31,750,014			41,023,520
Total liabilities	25,900,073	10,712	25,910,785	31,755,038			56,494,172
Deferred charitable gifts						2,315,309	2,315,309
Fund balances:							
Unrestricted (deficit)	(17,866,661)		(17,866,661)				(17,866,661)
Restricted	218,702	28,795	247,497		709,724		957,221
Quasi-endowment - unrestricted					37,988		37,988
Net investment in plant				49,517,221			49,517,221
Total fund balances (deficits)	(17,647,959)	28,795	(17,619,164)	49,517,221	747,712		32,645,769
Total liabilities and fund balances	$ 8,252,114	$39,507	$ 8,291,621	$81,272,259	$747,712	$2,315,309	$ 91,455,250

*$1,171,651 eliminated in consolidation.

The accompanying notes are an integral part of the consolidated financial statements.

THOMAS ROAD BAPTIST CHURCH AND RELATED MINISTRIES

CONSOLIDATED STATEMENT OF

UNRESTRICTED OPERATING FUND REVENUE AND EXPENSES

for the year ended June 30, 1986

Revenue:		
Gifts, offerings and bequests		$50,779,082
Tuition and educational fees		18,613,878
Room and board		9,693,155
Investment income		195,109
Other		4,834,381
Total revenue		84,115,605
Expenses:		
Payroll costs and employee benefits	$27,603,499	
Television and radio	14,511,997	
Scholarships	6,372,159	
Interest and service charges	5,627,383	
Postage	3,881,902	
Printing and reproduction	3,571,050	
Food and cafeteria services	3,050,111	
Utilities	2,742,703	
Office and other supplies	2,003,463	
Consulting and other professional fees	1,564,239	
Bookstore, cost of sales	1,414,546	
Gift offers	1,214,541	
Insurance	1,188,785	
Rentals and leases	1,051,244	
Repairs and maintenance	990,353	
Travel and transportation	988,578	
Bad debt expense	892,635	
Educational supplies	876,466	
Data processing	826,818	
Advertising	539,418	
Missions	303,224	
Other	1,438,315	
Total expenses		82,853,429
Excess of revenue over expenses		$ 1,262,176

The accompanying notes are an integral
part of the consolidated financial statements.

THOMAS ROAD BAPTIST CHURCH AND RELATED MINISTRIES

CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES

for the year ended June 30, 1986

	Expendable Funds					
	Operating					
	Unrestricted	Restricted	Loan	Plant Funds	Non-expendable Endowment and Similar Funds	Total All Funds
Fund balances (deficit), July 1, 1985	$(34,628,061)	$ 256,439	$32,294	$ 65,642,318	$550,216	$31,853,206
Revenue and other additions:						
Excess of unrestricted operating fund revenue over expenses	1,262,176					1,262,176
Investment income, restricted		56,150	220			56,370
Gifts and grants, restricted		527,632			197,496	725,128
Government appropriations, restricted		3,956,352				3,956,352
Donation of library books				200,000		200,000
Total revenue and other additions	1,262,176	4,540,134	220	200,000	197,496	6,200,026
Expenditures and other deductions:						
Expenditures from restricted funds, principally student aid		4,512,440				4,512,440
Federal funds to be refunded			3,719			3,719
Loss on disposal of plant assets				825,873		825,873
Other		65,431				65,431
Total expenditures and other deductions		4,577,871	3,719	825,873		5,407,463
Transfers - additions (deductions):						
Transfers to plant funds for plant acquisition	(9,016,577)			9,016,577		
Transfers to plant funds for debt retirement	(2,764,318)			2,764,318		
Transfers of funds	826,119			(826,119)		
Transfer of first mortgage bonds payable	26,454,000			(26,454,000)		
Total transfers	15,499,224			(15,499,224)		
Fund balances (deficit), June 30, 1986	$(17,866,661)	$ 218,702	$28,795	$ 49,517,221	$747,712	$32,645,769

The accompanying notes are an integral part of the consolidated financial statements.

THOMAS ROAD BAPTIST CHURCH AND RELATED MINISTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies:

The financial statements of Thomas Road Baptist Church and Related Ministries ("Ministries") have been prepared on the accrual basis. The significant accounting policies are described below:

a. The consolidated financial statements include the accounts and transactions of Thomas Road Baptist Church and the following related ministries:

Old Time Gospel Hour, Inc. - a television and radio ministry
Lynchburg Christian Schools, Inc. - a private school, preschool through grade 12
Liberty University - a liberal arts university
Liberty Baptist Seminary - a theological institution

All significant interministry accounts and transactions are eliminated in consolidation.

b. Basis of Accounting and Financial Presentation - In order to ensure observance of limitations and restrictions placed on the use of resources available, the accounts of the Ministries are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes.

The assets, liabilities and fund balances are reported in three self-balancing fund groups as follows:

i. Expendable funds, which include the following unrestricted and restricted resources:

- Operating funds, which represent the portion of expendable funds that are available for support of operations.
- Loan funds, which represent resources arising from lending programs for the benefit of students.

Continued

1. Significant Accounting Policies, continued:

   b. continued

      ii. Plant funds, which include resources restricted for plant acquisitions and funds expended for plant.

      iii. Non-expendable funds, which include the following restricted resources:

         . Endowment funds that are subject to restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. In addition, the Board of Trustees of Liberty University has established a quasi-endowment for the same purpose as endowment funds; however, any quasi-endowment funds may be expended.

         . Deferred giving funds that are subject to agreements whereby monies or other property are made available to the Ministries on the condition that the Ministries bind themselves to pay to the donor or other designated person a stipulated amount or the income earned on fund assets for a specified period of time.

   All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except that income derived from investments of endowment and similar funds is accounted for in the fund to which it is restricted or, if unrestricted, in the unrestricted operating fund.

   c. Investments - Investments are recorded at cost at the date of acquisition or at fair value at the date of donation.

Continued

THOMAS ROAD BAPTIST CHURCH AND RELATED MINISTRIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

1. Significant Accounting Policies, continued:

   d. Inventories - The Ministries value inventories at the lower of cost or market, with cost determined on the first-in, first-out method.

   e. Property, Plant and Equipment - Property, plant and equipment are stated at cost at the date of acquisition or at fair value at the date of donation; however, certain real property acquired prior to May 1973 has been recorded at its then appraised value of $6,259,707. Repairs to and replacements of property are charged to expense as incurred, while improvements extending the useful life have been capitalized. No provision has been made for depreciation of property, plant and equipment.

   f. Contributed Services - No amounts have been reflected in the consolidated financial statements for contributed services since no objective basis is available to measure the value of such services.

   g. Student Fees - Receipts of student fees applicable to academic sessions subsequent to the current year are deferred and recognized as current revenue in subsequent periods.

   h. Deferred Charitable Gifts - The Ministries have a gift program whereby gifts can be made in the form of annuity, life income, or unitrust contracts. All contract assets are held and managed by the Ministries.

   i. Income Taxes - The Ministries are organized and operated exclusively for religious and educational purposes and, accordingly, are exempt from federal income tax under the provisions of Code Section 501(a) of the Internal Revenue Code.

   j. Pledges and Bequests - It is impractical to determine the net realizable value of unpaid pledges and bequests; therefore, such pledges and bequests are not accounted for in the consolidated financial statements.

Continued

2. Acquisition:

During January 1986, Old Time Gospel Hour, Inc. acquired substantially all the assets of National Christian Network, Inc., an organization engaged in national religious television broadcasting. The total consideration of $2,874,921 was represented by cash payments of $815,000 and the assumption of a mortgage and various equipment and capital lease obligations. The acquisition was accounted for as a purchase. Accordingly, $800,000 of the purchase price has been allocated to deferred charges in the Operating Fund and the remainder allocated to property, plant and equipment in the Plant Fund. The deferred charge is being amortized over twelve months beginning February 1, 1986. The results of the acquired operations have been included in unrestricted operating fund revenue and expenses since the date of acquisition.

3. Deferred Giving Funds:

Changes in the assets of the deferred giving program during the year ended June 30, 1986 are summarized as follows:

	Irrevocable Trusts	Annuity and Life Income Funds	Total
Balance, July 1, 1985	$2,069,628	$642,419	$2,712,047
Principal receipts	135,102	36,695	171,797
Investment income	113,213	44,410	157,623
Payments to participants	(104,729)	(44,103)	(148,832)
Principal transferred to Operating Fund upon death of participants		(75,000)	(75,000)
Other, principally reduction of investment to fair market value	(502,326)		(502,326)
Balance, June 30, 1986	$1,710,888	$604,421	$2,315,309

4. Revocable Trust Agreements:

At June 30, 1986, Old Time Gospel Hour, Inc. was the trustee under revocable trust agreements for assets (which are not included in the consolidated balance sheet) having a carrying value of approximately $1,510,000. Upon the death of the donor and all other beneficiaries, the Ministries may receive all or a major portion of the trust assets.

Continued

5. Property, Plant and Equipment:

Net additions to property, plant and equipment totaled $11,168,488 for the year ended June 30, 1986.

On November 5, 1985, the Ministries sustained a loss due to a flood at their Treasure Island facility. After considering insurance recoveries of approximately $794,000, losses of approximately $812,000 have been recorded as a reduction in net investment in plant.

Property, plant and equipment at June 30, 1986 consisted of the following:

Land and buildings	$51,907,220
Construction in progress	965,999
Furniture and equipment	21,430,917
Transportation vehicles	5,047,975
Library books and instructional tapes	1,920,148
	$81,272,259

6. Mortgages and Other Debt:

Mortgages and other debt incurred to purchase property, plant and equipment are accounted for in the Plant Fund. All other debt is accounted for in the Operating Fund. During the year, the Ministries incurred additional debt amounting to $39,289,477 and curtailments of debt totaled $28,908,434. At June 30, 1986, mortgages and other debt consisted of:

	Final Maturity	Amount
Plant fund mortgages and other debt:		
First mortgage bonds payable, 9% - 17%	1989-1991	$26,454,000
Twenty-four mortgage loans, 8% - 16%	1987-2011	1,082,681
Nine equipment loans, prime* plus 1% - 15.52%	1988-1991	1,618,177
Eighteen capital lease obligations, implicit interest rates of 11.5% - 17.2%	1987-1991	2,595,156
Total plant fund mortgages and other debt, forward		31,750,014

6. Mortgages and Other Debt, continued:

	Final Maturity	Amount
Total plant fund mortgages and other debt, forward		$31,750,014
Operating fund debt:		
Six notes payable, banks, prime* plus 1% - 13%	1987-1991	6,008,717
Note payable, other lending institution, 18%	1988	2,000,000
Twelve notes payable, individuals, 5% - 10%	1987	241,318
Twelve notes payable, trusts, 10% - 15%	Demand	456,791
Note payable, estate, 12%	1987	250,000
Other note payable, prime* plus 2%, due within one year	-	247,305
General obligation bonds (life loans)	-	69,375
Total operating fund debt		9,273,506
Total mortgages and other debt		$41,023,520

*Prime at June 30, 1986 - 8.5%

Aggregate principal payments on debt, including amounts for capital lease obligations, are scheduled as follows: 1987 - $9,789,137; 1988 - $12,543,956; 1989 - $8,543,113; 1990 - $6,135,669; 1991 - $3,719,102; thereafter - $292,543 (see Note 11.b.).

Lease payments under capital leases amounted to $1,178,825 for the year ended June 30, 1986. Future minimum payments on capital leases totaling $3,263,121, inclusive of interest and principal, are as follows: 1987 - $1,122,141; 1988 - $910,850; 1989 - $793,276; 1990 - $403,645; 1991 - $33,209. Such payments, less interest of $667,965 included therein, represent the capital lease obligations at June 30, 1986.

At June 30, 1986, the first mortgage bonds payable and other plant fund mortgages were collateralized by first deeds of trust on certain real property located in Campbell County and Lynchburg, Virginia with a recorded basis of $36,327,460 and by assignments of life insurance on Dr. Jerry Falwell in an

Continued

6. Mortgages and Other Debt, continued:

amount not less than $26,816,627. The equipment loans were collateralized by office and other equipment recorded at $8,990,629. Equipment recorded under the capital lease obligations amounted to $4,072,807, which included $2,598,055 of equipment that may be purchased at the expiration of the lease term for a nominal amount. In addition, one of the capital lease obligations is also collateralized by an assignment of life insurance on Dr. Falwell amounting to $700,000.

The operating fund debt at June 30, 1986 was collateralized by a $1,300,000 certificate of deposit owned by the Operating Fund, assignments of life insurance on Dr. Falwell amounting to $2,750,000, transportation vehicles recorded at $3,450,000, first deeds of trust on certain real property located in Campbell County and Lynchburg, Virginia recorded at $8,578,341 and by a second deed of trust on certain real property located in Lynchburg, Virginia recorded at $1,965,569. In addition, operating fund debt of $3,800,000 has been guaranteed by an officer of the Ministries.

Under the terms of the first mortgage bond trust indenture, the Ministries are required to make monthly deposits of $716,494 into a bond and coupon redemption account. Thirty days prior to each semiannual payment date such accumulated deposits are transferable to the trustee for scheduled payments of bond principal and interest. During the year ended June 30, 1986, the required monthly deposits were not made; however, the Ministries have transferred to the trustee funds sufficient to make the required semiannual disbursements to the bondholders on a timely basis.

7. Employee Retirement Plans:

Liberty University and Liberty Baptist Seminary have contributory deferred annuity plans for all employees who elect to participate. The institutions' policy is to match 5% of the base salary of participating salaried employees provided such employees' contributions are at least 5%. Non-salaried employees may make contributions to the plan but such contributions are not matched by the institutions. Each participant is fully vested. Charges to operating fund expenditures under the plans were $306,128 for the year ended June 30, 1986.

Old Time Gospel Hour, Inc., Thomas Road Baptist Church, and Lynchburg Christian Academy have contributory retirement plans for all employees who elect to participate. The institutions' policy is to match the employees' contributions up to 5% of the employees' salary. To be eligible for the matching portion, employees must earn over $13,000 per year. Non-eligible employees may contribute to the plan but such contributions are not matched by the institutions. Each participant is fully vested. Charges to operating fund expenditures under the plans were $153,051 for the year ended June 30, 1986.

Continued

8. Operating Leases:

The Ministries lease certain real property, motor vehicles, data processing and communications equipment, and other equipment under operating leases, with options to purchase under several such leases. Total rental expense under these leases for the year ended June 30, 1986 was $1,076,400. As of June 30, 1986, future minimum lease payments under such noncancellable leases were $1,462,477 as follows: 1987 - $378,625; 1988 - $190,591; 1989 - $109,307; 1990 - $69,784; 1991 - $33,570; thereafter - $680,600.

9. Transactions with Related Parties:

Significant transactions with related parties are summarized as follows:

a. Radio and television airtime and other miscellaneous media costs were purchased through an agency whose president is the brother-in-law of Dr. Jerry Falwell. During the year, the agency purchased media time and duplicating services for the Ministries approximating $13,900,000 for a fee of $240,000. Accounts payable to this agency at June 30, 1986 amounted to $3,783,950 which is approximately the outstanding balance carried monthly throughout the year.

b. During the year, Old Time Gospel Hour, Inc. borrowed $7,645,000 at interest rates ranging from 8% to 12.5% from three individuals who are members of its Board of Directors. As of June 30, 1986, $200,000 was outstanding.

c. During the year, Old Time Gospel Hour, Inc. performed services totaling $445,030 for an organization whose president is Dr. Jerry Falwell, and this organization provided Old Time Gospel Hour, Inc. and Liberty University with services totaling $843,664. At June 30, 1986, the net receivable from this organization amounted to $520,124. In addition, during 1986, Old Time Gospel Hour, Inc. and Liberty University received gifts from this organization totaling $2,340,000.

10. Contested Liability:

On August 31, 1983, the Circuit Court for the City of Lynchburg ruled against a petition by Old Time Gospel Hour, Inc. requesting that real estate taxes assessed on certain parcels owned by Old Time Gospel Hour, Inc. be discharged based upon the organization's tax exempt status. As of June 30, 1986, the real estate taxes plus penalties and interest approximated $1,400,000 of which Old

Continued

10. Contested Liability, continued:

Time Gospel Hour, Inc. has been required to escrow approximately $340,000. The escrowed funds are included in restricted cash and temporary cash investments of the Operating Fund. No provision has been made in the consolidated financial statements for the contested liability. The Ministries are vigorously contesting the Court's decision and have appealed the decision to the Supreme Court of Virginia. On September 25, 1986, Lynchburg City Council adopted a resolution in support of a request of Old Time Gospel Hour, Inc. to the General Assembly of Virginia for adoption of legislation exempting from real estate taxation certain portions of the contested parcels of real estate. The General Assembly of Virginia is expected to act on this request in the session scheduled to begin in January 1987. While the outcome of the dispute is uncertain, management believes it will be successful in its request to the General Assembly of Virginia and, if not, that it continues to have meritorious grounds for the appeal to the Supreme Court of Virginia.

11. Commitment and Other Matters:

a. For the fiscal school year 1986-87, the University's expected enrollment will exceed 7,350, of which approximately 2,500 will receive full or partial scholarships valued at approximately $5,900,000.

b. At June 30, 1986, the Ministries' debt, including capital lease obligations, approximated $41 million (see Note 6). A substantial portion of such debt was incurred in financing Liberty University's capital expenditures which for the last two years total approximately $15 million. Scheduled principal repayments on debt, approximating $10 million for fiscal 1987, generally must be paid from available revenues of the Ministries, a substantial portion of which is derived from voluntary gifts, offerings and bequests.

Management, in recognition of the Ministries' annual debt service requirements, principally attributable to the funding of significant capital expenditures, intends to restructure mortgage debt to obtain more favorable interest rates and repayment terms and, in this connection, is presently in negotiations with its underwriters. Additionally, management has instituted a program to expand its contribution base and continues its efforts in containing costs.

In the opinion of management, the favorable financial impact of the above described actions will enable the Ministries to fund their anticipated debt service requirements.

---

11. Commitment and Other Matters, continued:

    c. At June 30, 1986, assets of the Deferred Giving Fund include $884,146 of unsecured, interest bearing promissory notes issued by the Operating Fund to certain trusts of which Old Time Gospel Hour, Inc. is the trustee. In addition, as of that date, the Operating Fund had issued approximately $457,000 of similar notes to other trusts, the assets of which are not included in the consolidated balance sheet. Upon advice of counsel received subsequent to the balance sheet date, management is in the process of repaying the notes and transferring all trust assets to an independent trustee.

THOMAS ROAD BAPTIST CHURCH AND RELATED MINISTRIES

CONSOLIDATED STATEMENT OF

UNRESTRICTED OPERATING FUND REVENUE AND EXPENSES

For the year ended June 30, 1987

Revenue:		
Gifts, offerings and bequests		$54,034,910
Tuition and educational fees		20,628,999
Room and board		11,183,408
Other		5,211,817
Total revenue		$91,059,134
Expenses:		
Payroll cost and employee benefits	$27,278,742	
Television and radio	13,247,169	
Scholarships	6,184,732	
Interest and service charges	7,179,533	
Postage	4,477,532	
Printing and reporduction	3,906,388	
Food and cafeteria services	3,181,718	
Utilities	2,466,586	
Office and other supplies	1,886,349	
Consulting and other professional fees	1,435,828	
Bookstore, cost of sales	1,289,614	
Gift offers	1,160,831	
Insurance	1,045,204	
Rentals and leases	1,530,633	
Repairs and maintenance	1,529,131	
Travel and transportation	856,217	
Bad debt expense	840,156	
Educational supplies	777,670	
Date processing	682,004	
Advertising	486,161	
Other	3,614,808	
Total expenses		$85,057,006
Excess of revenue over expenses		$ 6,002,128

Note: The above information has been derived from the minstry's unaudited consolidated financial statements and is subject to year-end audit adjustments.

OLD-TIME GOSPEL HOUR

1987

Ministry Report

Prepared by the Executive Committee of the Old-Time Gospel Hour

ˌkred-ə-ˈbil-ət-ē

Credibility. A most needed ingredient in winning the public's trust. To be cherished like a treasure, credibility must be safeguarded with honesty, integrity, openness, and accountability.

Doubts and fears about ministries have been raised in the minds of Christians as a result of recent events. Facing a credibility problem, ministries must once again earn the confidence previously entrusted to us . . .

. . . that is why we have prepared an overview of our ministries. I want you to know that we are doing exactly what we claim to be doing.

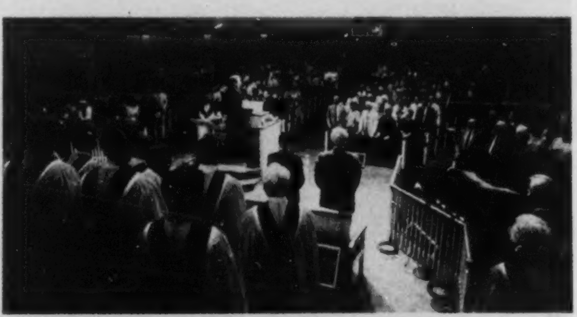
. . . that is why a copy of our financial statement is available for public review. Anyone can see how we use contributions.

. . . that is why I am inviting all of our friends to Lynchburg to see firsthand how God allows us to minister.

If after reviewing this information you still have questions or want more information, please call or write me and I will do my best to see that you get an answer.

Your prayers are valuable assets that will not show up on a balance sheet. Through this report you can see where your financial support is going and why your prayers are needed. I hope you will be pleased, but, most of all, I hope God is pleased.

Jerry Falwell



A Servant First

Jerry Falwell

by Deborah Huff

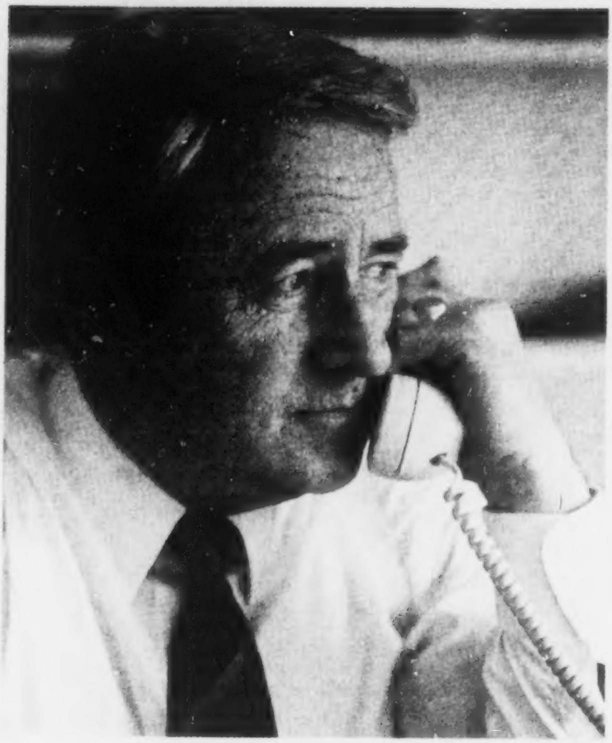
The voice of a statesman. The inspiration of a teacher. The vision of a leader. A champion to his friends. A crazed spirit to his adversaries. A helping hand to the broken spirit. The compassion of a pastor. The heart of a father.

When you describe Jerry Falwell, words of character and leadership top the list. But each of those descriptives is based on a simple desire to first be known as a servant of God.

Jerry and his twin brother, Gene, were born to Carey and Helen Falwell on August 11, 1933. During their teenage years, Mrs. Falwell could not get her sons out of bed on Sunday morning to attend church. Being the wise mother that she was, she turned the radio on to the "Old-Fashioned Revival Hour" with Dr. Charles E. Fuller before she left the house for church. She knew that neither of her boys would get out of bed to turn off the program. Years later as he realized his need for Christ, Jerry would remember the words of Dr. Fuller. Because of this early influence of a radio ministry in his own life, Falwell places a vital importance on the broadcast media in reaching the world for Christ.

After graduating from Baptist Bible College in 1956, Jerry committed himself to building a Christian ministry in his hometown. A building that once housed the Donald Duck Bottling Company was renovated for the new Thomas Road Baptist Church. Even after a rigorous cleaning, soft drink syrup stains remained on the floor. Those attending the first services had to be careful not to stand in one place too long or their shoes would stick to the floor.

In a matter of weeks, Jerry was preaching daily on the church's new radio ministry and by the end of that calendar year, he was addressing the local community via the Old-Time Gospel Hour television broadcast. Constant expansion became the normal pattern for the church led by its conservative, but sometimes controversial, pastor. His vision and desire to reach the world for Christ would be instrumental in establishing one of the nation's largest churches, a television and radio ministry, a Christian university, an influential political organization, and a worldwide missionary outreach.



The Falwells maintain a moderate lifestyle. There are no Rolls-Royces or luxury limousines owned by them or the ministry. For Jerry traveling around town means jumping into his four-wheel drive GMC Suburban truck. "I was born on a farm in Campbell County, Virginia. And although they have gotten this boy out of the farm—they have not gotten the farm out of me," jokes Falwell. "I still prefer a truck over a car."

To travel across the country logging as many as 5,000 miles a week, the ministry purchased a small jet. "It gives me a greater flexibility in my schedule. Flights out of the Lynchburg airport require making connections elsewhere. For me a typical workday includes a pastors' luncheon meeting in Miami, Florida, and an evening revival service in Somerset, Kentucky. I have to be in so many different places within such a short time, that it is not possible to travel with the regularly scheduled airlines. And I always like to be home at night. Some people may call the jet a luxury. If they would follow me for a week, they would know why it is a necessity."

The Falwells live in a 150-year-old colonial home. A board member of the Old-Time Gospel Hour purchased the house in 1980 for $160,000. He then donated the home to the ministries as a parsonage. During the past seven years the Falwells have extensively renovated this beautiful home and its current value is assessed at $250,000.

At the time of the gift, the donor requested that the ministry consider giving the home to the pastor and his family. When the OTGH board decided to do this, Macel and Jerry refused. Instead, they negotiated with the board to buy the home from the ministry at the original

purchase price. Like so many homeowners, they are making payments. While it is a lovely home, it is far from ostentatious.

Lynchburg and the surrounding counties have a combined population of 110,000 people. Wherever Jerry goes in this small community someone knows his name, his family, his position, and his responsibility.

"I am accountable on a daily basis to the Lord, to my wife and family, to the members of the church, to the deacons, to the students at Liberty, to the people of this community, and to the contributors of the ministry.

"Since I have spent all 53 years of my life in this town, virtually everyone knows me by name and by face. I can't sneeze without someone knowing about it. The Bible requires that the servant of God be 'blameless' and 'above reproach', and this kind of accountability is scriptural."

Before all his other responsibilities, Jerry is a family man first. Macel, the church's pianist since 1956, graduated from Liberty University this spring along with their youngest son, Jonathan. Jerry, Jr., completed work on his law degree and Jeannie continues her pursuit of becoming a medical doctor.

Close-knit best describes them. As a family the Falwells protect their quiet times together. Birthdays, holidays, vacations, and especially the plain old-ordinary sit-down-and-watch-TV-together moments are cherished. No matter what his schedule, the family is first. Adapting the Scripture verse Mark 8:36, Jerry has often said, "What does it profit a man if he wins the world but loses his own children."

MINISTRY REPORT

A Cornerstone for World Outreach

The Local Church

As the cornerstone of a worldwide evangelistic ministry, the Thomas Road Baptist Church is first a teaching ministry to the people of Lynchburg, Virginia.

On any given Sunday morning at TRBC, about 10,000 people study God's Word in many different adult Sunday school classes. Bible studies meet the special needs of people whether single, newly married, or young, old, or anywhere in between.

Each Sunday the bus ministry, a unique evangelistic outreach of TRBC, provides transportation to an average of 700 people within a 25-mile radius of Lynchburg who would not otherwise be able to attend church.

The church doesn't believe in keeping children out of sight. From 11 months and up, our babies are actively taught about Jesus. The children's ministry involves children in Sunday school, choirs, missions programs, and junior church. Over 500 children participate in special sports programs and summers bring 3,500 children to camping programs to learn about the Saviour. The average Sunday school attendance is 1,100 for the nursery through the sixth grade.

To help these young people learn what it means to be a missionary, 32 children and 7 adults recently traveled to Mexico on a missions exposure trip. The children raised enough money to purchase materials to start an AWANA program at a Mexican church. The 118-voice children's choir, the Branches, is currently recording its second album to follow up their successful "Kid's Sing Praise" album which received recognition as number eight on Contemporary Christian Music's top 50 album chart.

The youth ministry involves over a thousand junior and senior high school students weekly in ministries designed to take Jesus Christ to the school campuses of Lynchburg. An array of youth-oriented activities captures the energy

Profile

Aggressive Soulwinning

Where there's a will there's a way to win souls for Christ. Our telephone evangelists call people who have expressed a desire to hear the plan of salvation. In an average week we are able to lead 25 people to Christ as God uses J.O. Grooms and the soulwinning department.

Being able to share the Scriptures is essential to winning souls. With this in mind, an extensive Scripture memorization program has been developed for use in local churches around the world. In the Philippines, 26,000 people are taking the course and in Central and South America 100,000 people are enrolled.

and channels the talent of today's excited young people. Drama, puppetry, music, martial arts, media—each of these fields is open to any young person who wants to learn to use his abilities to minister and evangelize. In the spring, the youth department sponsors a trip to King's Dominion amusement park. This year even though rainy weather cut attendance drastically, over 2,000 young people made the journey. What a caravan of yellow buses! Most importantly, evangelism was the purpose of the trip and over 300 salvation decisions were made.

Close-Up

Kids and Sports a Winning Combination

Bobby, a husky, red-haired, athletic 12-year-old, never went to church much. His grandmother had taken him when he was smaller, but lately his mother and stepfather left Bobby's Sunday morning activities up to him.

And sleeping late seemed so appealing.

A friend at Bobby's public middle school mentioned a football league sponsored by the youth ministry of Thomas Road Baptist Church. There was only one stipulation—players had to attend Sunday school the week before each game.

Bobby telephoned one of the coaches, and before long youth pastor Jeff Koons was giving Bobby a ride to Sunday school. Koons wasn't sure how long Bobby would remain interested in church after football season ended. Bobby might return to his late sleeping habits.

But he didn't. He kept coming to Sunday school, church, and the weekly Bible club. On a cold night in February, Bobby asked Jeff how he could receive Christ as his Saviour. Koons was thrilled to explain the invitation Christ offers to everyone.

Bobby was baptized within a month, has continued to attend Sunday school and is involved with the Light Company singing team. Lately, he has expressed an interest in pursuing Christian work as a vocation, and he says he wants to play football at either Liberty University or Virginia Tech.

Profile

The Glow of the Golden Years

Because our society often tends to disregard the beauty of the "golden years," the Senior Saints of TRBC minister to restore respect and honor to our elders. The ministry conducts 28 social and spiritual activities monthly for 400 active members. Ninety monthly programs are offered in local nursing and retirement homes.

Behind the scenes each week 15 ladies call approximately 10 homes contacting as many as 225 individuals through a telephone network.

Many senior adults live very active social lives and our Senior Saints Ministry likes to provide them with exciting outings, socials, and activities at a minimal cost. Shopping trips to Burlington, Williamsburg, and other areas and tours to historical sites provide the opportunity to fellowship.

To provide a national ministry, each year we host a Senior Saints Weekend. Last year 300 visitors from 24 states and Canada attended. This year Senior Saints Weekend is October 2-4. How-to materials have been supplied to churches across the country to help organize senior adult ministries.

About 70 students minister to senior adults through the Christian Service Department. The Senior Saints Ministry also works with local secular senior adult groups and has a weekly radio broadcast entitled "New Horizons."

MINISTRY REPORT

Serving Ministries

by Angela Elwell Hunt
and Martha Harper

The Good Samaritan. A helping hand. A friend in need…

Reaching someone whose life has been touched by disaster or personal problems is an example we are commanded to follow. At Thomas Road Baptist Church we make reaching broken lives a priority.

Elim Home for alcoholic men operates on 7 acres just outside Lynchburg. Begun over 29 years ago, over 100 men use this ministry each year, with a 60 percent success rate. The 60-day program provides spiritual teaching and counseling and seeks to help the men build structure and accountability back into their lives. In late April, there were 14 men at Elim Home.

The **Counseling Center** located on Liberty Mountain offers Christian counseling for any individual or family needing help. The trained counselors provide professional counseling without charge. Last year this staff held over 6,000 counseling sessions in the center and more than 2,000 telephone counseling sessions.

The **deaf ministry** and the National Counseling Center for the Deaf were established to bring the gospel and counseling to those who cannot hear. The deaf ministry is responsible for interpreting the "Old-Time Gospel Hour" program and offers other interpretive services. By simply dialing a 24-hour toll-free number (1-800-368-3801), deaf people who have a question, need prayer, or just need a friend to talk to can use a teletypewriter/telecommunications

Close-Up

A New Start

Mark Conners was literally sick and tired. Lying on the bed at his mother's house, he could hear the concern in her voice as she talked to her pastor. "Pastor, he's just got to get help," he could hear her saying. "He's drinking, he's doing drugs, he's divorced his wife, and now he is living with some girl. I don't know what to do."

The bearded young man's brown eyes blinked in weariness as his mother came into the room. "The pastor says there's a place in Lynchburg, Virginia. You can go there and they will help you lick this mess."

As Mark settled into the routine at Elim, he was counseled by godly men, led in Bible study, and encouraged to find the answers in the Bible and prayer, not in alcohol and drugs.

"I knew I had to make it work," says Mark, "so I concentrated on it because I wanted to change."

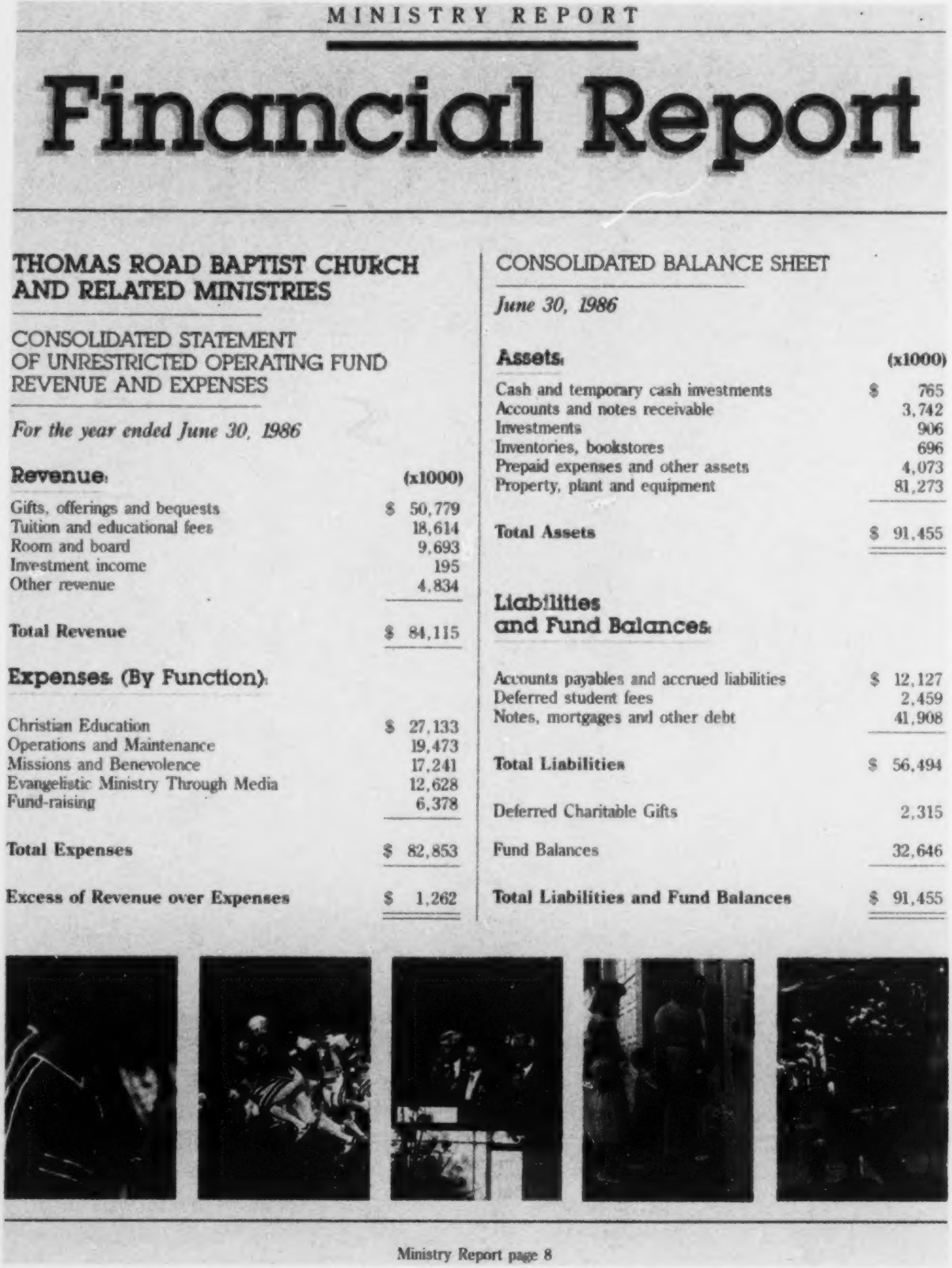
Mark did change. Today he is 37, a self-supporting carpenter, and a Bible study leader. He now helps others through the problems of substance abuse he once endured. For Mark Conners, Elim Home made the difference.

device and be connected with a trained Christian counselor at the National Counseling Center for the Deaf. A national magazine, *Signposte* is available without charge to the deaf, and each year the ministry offers training sessions for people who would like to work with the deaf.

The Liberty Prison Outreach seeks to carry the gospel of Jesus Christ to the 503,000 men and women incarcerated in America's prisons. Reaching consistently into 15 central Virginia penal institutions, the staff meets face-to-face with prison inmates each week to offer counseling, prayer, education, or other help. Correspondence from inmates around the world filters into the Prison Outreach office, and the staff provides Bibles, Bible study material, and a listening ear to inmates who need to know that someone on the outside really cares. In the first half of this year the staff has distributed 928 copies of Scripture, met with 3,000 prisoners, and personally seen 79 men accept Christ. Jesus Christ is the central message of hope at Elim home.

The Family Center, a "store" for people in financial difficulties, allows its "shoppers" to receive clothing, food, and medical services without charge. Since 1982 when the Family Center was established 80 families per month have received much needed assistance.

continued on page 10



MINISTRY REPORT

Financial Report

THOMAS ROAD BAPTIST CHURCH AND RELATED MINISTRIES

CONSOLIDATED STATEMENT OF UNRESTRICTED OPERATING FUND REVENUE AND EXPENSES

For the year ended June 30, 1986

Revenue	**(x1000)**
Gifts, offerings and bequests	$ 50,779
Tuition and educational fees	18,614
Room and board	9,693
Investment income	195
Other revenue	4,834
Total Revenue	$ 84,115
Expenses (By Function)	
Christian Education	$ 27,133
Operations and Maintenance	19,473
Missions and Benevolence	17,241
Evangelistic Ministry Through Media	12,628
Fund-raising	6,378
Total Expenses	$ 82,853
Excess of Revenue over Expenses	$ 1,262

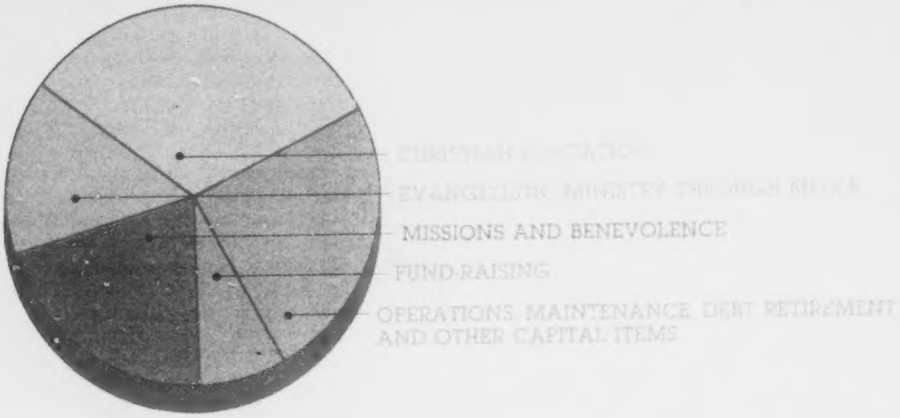
CONSOLIDATED BALANCE SHEET

June 30, 1986

Assets	**(x1000)**
Cash and temporary cash investments	$ 765
Accounts and notes receivable	3,742
Investments	906
Inventories, bookstores	696
Prepaid expenses and other assets	4,073
Property, plant and equipment	81,273
Total Assets	$ 91,455
Liabilities and Fund Balances	
Accounts payables and accrued liabilities	$ 12,127
Deferred student fees	2,459
Notes, mortgages and other debt	41,908
Total Liabilities	$ 56,494
Deferred Charitable Gifts	2,315
Fund Balances	32,646
Total Liabilities and Fund Balances	$ 91,455

Ministry Report page 8

Where the Money Goes



	(x1000)	
CHRISTIAN EDUCATION (Liberty University and Lynchburg Christian Academy)	$ 27,133	32.2%
OPERATIONS, MAINTENANCE, DEBT RETIREMENT AND OTHER CAPITAL ITEMS	20,735*	24.7
MISSIONS AND BENEVOLENCE (Foreign and Home Support, Literature Distribution, and Educational Assistance)	17,241	20.5
EVANGELISTIC MINISTRY THROUGH MEDIA (Television and Radio)	12,628	15.0
FUND-RAISING	6,378	7.6
	$ 84,115	100.0%

*Includes the excess of revenue over expenditures of $1,262,000 which was allotted to net debt retirement and other capital items.

continued from page 7

The Liberty Godparent Ministry was established in 1982 with a single purpose: to save babies from abortion. That simple goal has led to a multifaceted ministry serving young women and families in crisis.

A monthly average of 163 desperate girls call the 24-hour crisis pregnancy hot line to receive counseling, a free pregnancy test, or an appropriate referral.

The Liberty Godparent Home houses pregnant girls who need a place to stay during their pregnancy. Room and board; education; medical care; group and individual counseling; pastoral guidance; and prenatal, delivery, and postpartum care are the major services offered at no cost to the young women.

At present the Lynchburg home houses 18 young women and is filled to capacity. During a recent two-month period, eight babies were born! A new home which will house 150 women is being planned. Since the Godparent program's inception, we have helped over 30,000 young women save their babies from abortion.

Family Life Services is an adoption agency which serves young women who wish to make an adoption plan for their baby. Prospective parents who apply to the agency must be Christians, active in a local church, and dedicated to the Lord Jesus Christ.

The Liberty Godparent National Outreach teaches other churches and ministries how to set up a similar program. There are now 637 affiliated ministries across the nation extending a hand of compassion to their communities.

Close-Up

Seventeen and Pregnant

"I think my mom knew better, but I told her I couldn't be pregnant," recalls Cathy Jo. But after six weeks of waiting, a doctor's pregnancy test confirmed what Cathy Jo and her mother had feared: the 17-year-old was going to have a baby.

"My first thought was 'I'm getting an abortion,' " says Cathy Jo, "but my doctor refused. My mom had heard about the Liberty Godparent Home on television, and she made me call for information. Although I didn't want to, I called and they told me I could come to Lynchburg and stay at the Godparent Home."

Cathy Jo was from a small Southern town where everyone knows his neighbor's business. She wanted to get away, and Lynchburg proved to be the perfect place to decide a future for herself and her baby.

"When I first arrived in Lynchburg, I was so mad at my parents for making me come that I told them never to visit, call, or write—I never wanted to see them again. After three weeks, though, I adjusted and received my first letter from my parents. My mom said she'd support me no matter what and I cried realizing how lucky I was to have Christian parents."

As the months passed, Cathy Jo became more and more glad she had come to the godparent home. "When I felt the baby kick, I knew it was alive—a real baby." Cathy Jo made an adoption plan for her baby and now is trying to earn the money to enroll in Liberty University. "Placing my baby for adoption was the hardest thing I've ever done," she says, "but now my baby will have everything it needs."

MINISTRY REPORT

Reaching the World

Missions Ministry

World evangelization is the purpose of every program out of the Thomas Road Baptist Church. Not only do we aggressively support missionaries but we concentrate vast resources and energies on training future missionaries.

While many college students spend semester breaks with their families or just relaxing in the sunshine, hundreds of Liberty students give their vacation time to reach hearts for Christ. This past Thanksgiving 10 students went on a foreign exposure campaign to Mexico City. The group observed and participated in prison and youth ministries. Over Christmas break 9 students spent 10 days in Guatemala on a building campaign. While working with a host missionary the group built 4 homes for widows and renovated an existing building for medical use.

As another part of the campaign, 11 students and staff went to western Europe visiting Greater Europe Mission's Bible Institute in Germany.

Imagine students traveling behind the Iron Curtain and seeing 40 new believers baptized. That is what happened over spring break when 18 students participated in a World Impact Campaign to the Communist country of Romania.

Stateside, 65 young people swarmed Florida's Clearwater Beach area conducting a massive beach evangelism program. In cooperation with First Baptist Church of Indian Rocks in Largo, Florida, this missions outreach was a combined effort of students from Liberty University and the TRBC college and career classes. Despite dreary rainstorms and cold temperatures, the students were able to individually talk with 1,050 people and recorded 132 decisions to accept Christ.

Inner city USA will once again be invaded by over 100 students as they spend their summer as missionary interns working in urban outreaches. Fifty students will join an evangelistic blitz on New York City for 2 weeks. For the longer 10-week program, 11 students will remain at Tom Mahairas's Manhattan Bible Church; 6 in Philadelphia under the direction of Paul Parr, Cedar Grove Church; 16 students in Chicago under Charles Lyons of Armitage Baptist Church; 4 in Los Angeles under E.V. Hill at the Mt. Zion Missionary Baptist Church; 4 students in Jackson, Mississippi, with Voice of Calvary Ministries;

An extensive Haiti missions project of building churches and schools in Haiti led by Wallace and Eleanor Turnbull. Our missions program supports this outreach with financial aid and in the last decade over 500 students have been involved in 13 different missions trips to Haiti.

and in Lynchburg, 2 students will work through TRBC and Seven Hills Baptist Church.

Because of Sudan's volatile political scene, the ministry was advised to leave the country in order to protect the safety of the students on the team. This program has been redirected to other African countries.

In May, LU students went to Africa to establish a health care clinic and begin extensive evangelistic outreaches in Kenya and Uganda. The Kenya Project, a long-term ministry and relief outreach, will help the Turkana tribespeople.

In addition to the Kenya Project, LIGHT, an international evangelistic team consisting of 82 students and staff, ministered in Kenya and Uganda between May 17 and June 7. Similar campaigns have proven highly effective not only as evangelistic outreaches, but in training participants for varied areas of ministry.

Why send students to these faraway places? There is no better way to show students the real needs of this lost world than to allow them to see it for themselves. Since Liberty University began, approximately 250 Liberty graduates have become missionaries. The church reflects this effort by supporting 132 missionaries working directly in 29 countries and through radio and Bible translation outreaches influencing 66 countries.

Close-Up

Bob and Debby Lugar; Rick and Irene Lange

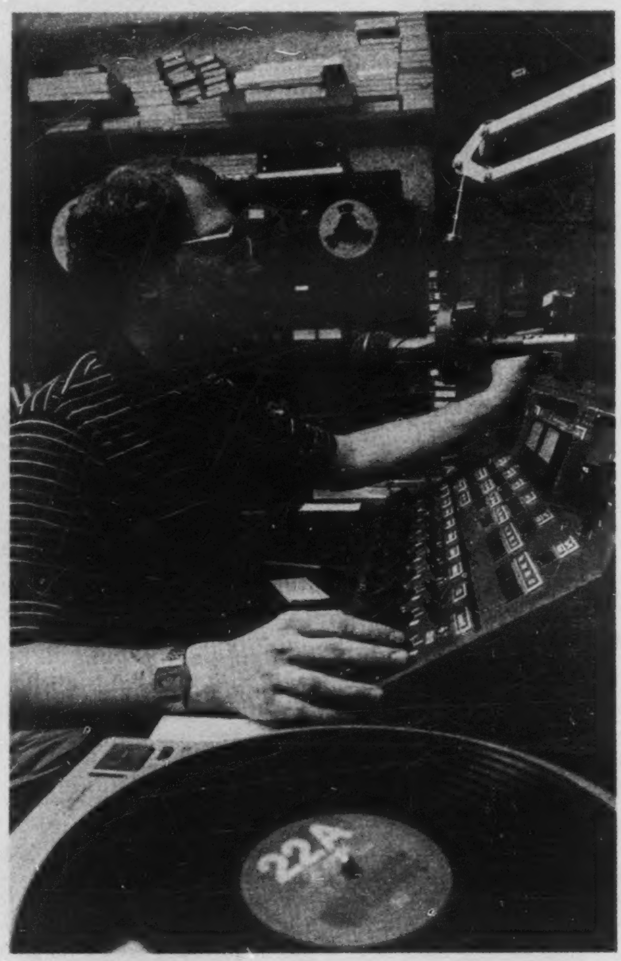
Bob and Debby Lugar

Bob and Debby Lugar are missionaries to France. Bob, a graduate of LU, directed foreign exposure campaigns while on staff at Liberty. He was originally exposed to missions through SMITE, a missions outreach now called LIGHT. During this time he met his wife, who was also a student of LU.

While students at Liberty, Rick and Irene Lange participated in the Haiti Project. Upon graduating they returned to Haiti to serve as missionaries. After their mission internship, they directed the Sudan mercy team and will now be directing the Kenya Project.

Reaching Millions with the Gospel of Christ

Media Ministries



With a goal to reach the world for Christ, the ministry uses every available means to do so. Today's broadcast media allows us to reach millions with God's message of eternal life.

The Old-Time Gospel Hour and the Liberty Broadcasting Network carry the gospel into homes throughout the United States and Canada. The Old-Time Gospel Hour, which airs on an average of 390 stations each week, brings services of the Thomas Road Baptist Church to the viewing public. Ninety percent of the homes in America can receive the program. Old-Time Gospel Hour specials, including "A Better Way" and "I've Seen America," are produced and aired periodically in prime time.

The **Liberty Broadcasting Network** provides 24-hour religious programming and is available on 90 cable systems. The network features a daily talk show with Jerry Falwell, "The Pastor's Study."

The ***Fundamentalist Journal,*** a magazine for today's Christian family, reaches 50,000 homes and offices with a readership of over 100,000 people. The magazine is known for its support of the fundamentals of the faith: the inerrancy of Scripture, the Virgin Birth, the deity of Christ, the substitutionary Atonement of Christ, and the bodily Resurrection and return of Christ. Although no magazine can speak for the overall Fundamentalist movement, it is our desire to create a forum to encourage Christian leaders and build strong Christian families.

WRVL, the Radio Voice of Liberty, provides 24-hour Christian radio programming which includes gospel music, inspirational teaching and preaching, news, and sports. The 50,000-watt station reaches cities within a 100-mile radius of Lynchburg, including the population centers of Roanoke, Danville, and Charlottesville. Over 2.5 million people have access to radio programming which extols Jesus Christ through WRVL.

"April is our fund-raising month," explains Jerry Edwards, "and part of that is a free Appreciation Day concert given for supporters of WRVL. This year's concert featured New Song, the Men of Liberty, and soloist Jim Murray." Over 3,500 listeners and supporters of WRVL attended the concert.

Close-Up

Faith Partners Give and Find Support

Mr. and Mrs. Richard Durney of Hopewell, New Jersey, are Faith Partners and spend each Sunday evening watching the Old-Time Gospel Hour. "The whole family watches every Sunday night," says Anne Durney.

Recently the family's 2-year-old daughter was stricken with an illness. The family doctor urged the Durneys to rush her to the hospital, but before leaving Anne took time to call the Faith Partner hot line. A counselor prayed with her and put her daughter's name on the weekly prayer list.

Once at the hospital, every doctor and nurse who examined the child gave one chilling diagnosis: spinal meningitis. The family continued to pray, and after the medical tests were complete, the Durneys were thrilled to hear that what was once supposed to be meningitis was a simple viral infection. Their daughter was fully recovered in a few days.

"The Faith Partner hot line meant so much," says Anne. "We can be part of a ministry and know we're helping reach others for Christ."

Faith Partners

A Special Invitation

Young. Vivacious. Well-liked. David DeMoss would have graduated from LU in May. He was preparing for a promising future as a champion for Christ. But God had different plans. On June 6, 1986, in a tragic automobile accident David lost his life—but gained eternity. If you were to die today, perhaps unexpectedly as David did, do you know for certain that you would spend eternity in heaven? God offers us eternal life through Jesus Christ. "For God so loved the world, that he gave his only begotten Son, that whosoever believeth in him should not perish, but have everlasting life" (John 3:16).

Everyone has sinned. "For all have sinned, and come short of the glory of God" (Romans 3:23). Jesus Christ is the only remedy for sin. "Neither is there salvation in any other; for there is none other name under heaven given among men, whereby we must be saved" (Acts 4:12). You must receive Jesus Christ as your personal Saviour. Jesus told Nicodemus: "Except a man be born again, he cannot see the kingdom of God" (John 3:3).

We invite you now to receive the Lord Jesus Christ as your personal Saviour. Upon doing so you will become a son of God forever. "But as many as received him, to them gave he power to become the sons of God, even to them that believe on his name" (John 1:12). Just pray this prayer and mean it with all of your heart: *Dear Lord Jesus, I realize I am a sinner. I accept the fact that you died for me on the cross of Calvary. I now open my heart's door and receive you as Saviour and Lord of my life. Please help me to be the kind of Christian you want me to be. Amen.*

If you have done this, we would like to send you a free copy of Jerry Falwell's booklet, *How to Get Started Right.* Please write the Old-Time Gospel Hour, Lynchburg, Virginia 24514.

Close-Up

Ellen is 89, and actively serving the Lord.

We may never know who sent us the article or from what paper it came, but we'll always be grateful to the supporter who took time to send us the clipping about Ellen Harper.

It seems that Ellen had always thought she was a Christian. She had attended church throughout her life, but somehow had never felt a peace or real meaning in her religion. It was just a ceremony, a practice of conventionality that polite, well-bred women were supposed to uphold.

But one afternoon, 81-year-old Ellen despondently turned the television stations trying to find something worth watching. The dial found the "Old-Time Gospel Hour" program and Ellen watched out of a detached sense of curiosity.

Suddenly the words spoken by Pastor Jerry Falwell touched her heart. Ellen was aware of what she had been missing for years: a personal relationship with the risen Lord Jesus Christ.

She bowed her head and prayed to surrender her life to Christ. At 89, she is now actively serving the Lord.

Ellen, wherever you are, God bless you.

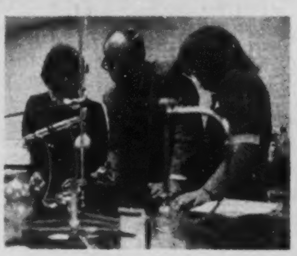
Teaching Students

Building Leaders

With the desire of training champions for Christ to go into all walks of life, the Thomas Road Baptist Church created one of the world's most comprehensive Christian learning centers.

Liberty University was founded in 1971 by Jerry Falwell and is now the fastest-growing university in the United States with 7,500 students. Liberty offers a comprehensive, coeducational, Christian environment committed to serious scholarship at the undergraduate and graduate levels. From a small, undefined campus with temporary classrooms, the university has expanded on its 4,700-acre campus to include complete classroom, dorm, study, and recreation facilities. The student body represents 50 states and 34 foreign countries.

Liberty University is noted for its campus spiritual life. Students and faculty meet for inspirational chapel services three days each week. Dorm students end each day in small, personal prayer groups to encourage and pray for one another. They can choose from over 100 areas of Christian service in the community and in local churches.



Liberty students are encouraged to be champions, and nowhere is that attitude more evident than on the sports field. Intercollegiate athletic competition is in NCAA Divisions I and II. Liberty men compete in baseball, basketball, cross-country, football, soccer, golf, track and field, wrestling, tennis, and golf. The women's program includes basketball, cross-country, track and field, and volleyball. Other sports programs include ice hockey and lacrosse.

All sports events are used as a means to witness for Christ. For instance, following each basketball game the LU players share gospel tracts and personal testimonies with their opponents. Many young men and women have received Jesus Christ as Saviour through these efforts.

The teachers at Liberty University are not only academic experts, they are strongly committed Christians. The average Liberty faculty member has over 13 years of teaching experience and over half of them have earned doctorates with 47 percent having earned a master's degree. Most of those are pursuing further graduate studies.

Liberty's outstanding academic program offers over 75 different fields of study within the university's six schools. Whether a student's ambition requires training in nursing, pre-law, pre-med, education, religion, or business, Liberty can offer a fine Christ-centered program to meet the need.

Close-Up

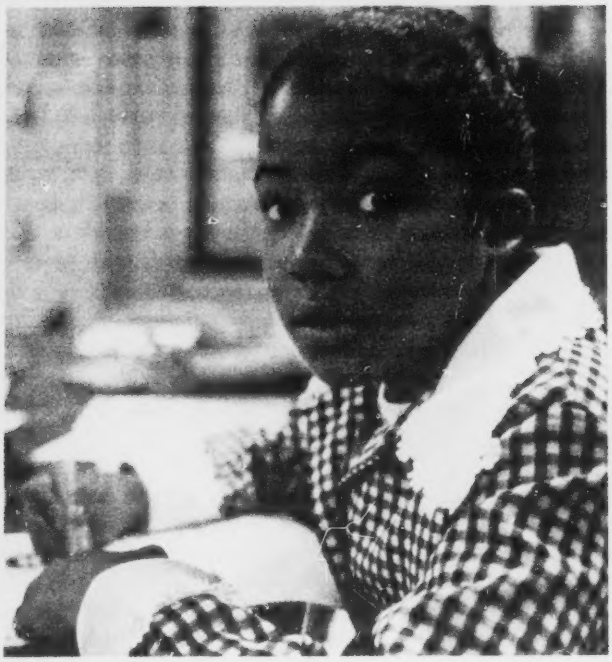
"Thank You 15,000 Club"

Dathan Brown graduated from Liberty University in May 1987, but he couldn't have done it without the help of 15,000 Club members.

The son of a pastor in Hobart, Indiana, Dathan describes his family as "middle middle" class. "I chose Liberty because I liked what I saw academically and spiritually, not because it was inexpensive, but if it were not for 15,000 Club members few people could afford Liberty. The 15,000 Club members help build buildings and provide the support to keep tuition down."

Dathan plans to continue his education at Liberty and earn a Master of Divinity. When completed, he plans to build a local church in Hawaii. "It may sound strange that I want to build a church in Hawaii, but it is a key cultural area for reaching the South Pacific for Christ."

Dathan earns a partial scholarship by working in the university's Visitor's Center. "When I meet a visiting 15,000 Club member, I just want to thank them and tell them that they are the backbone of our ministry. Dr. Falwell appreciates their support," the young man smiles gratefully, "and so do I."



The **Liberty University School of LifeLong Learning** was begun in 1985 and in two years has graduated 71 students with graduate or undergraduate degrees. Accredited by the Southern Association of Colleges and Schools, LUSLLL now enrolls students from every walk of life with its oldest student being 91! LUSLLL offers two undergraduate degrees in several areas of concentration and two graduate degrees. Students earn a degree from an accredited Christian university in their own living rooms."

The **Liberty Home Bible Institute** offers a general Bible diploma to men and women who wish to study at home. Since the founding of the institute in 1976, 1,800 people have received their diplomas. Presently over 23,000 men and women are studying God's Word through the Liberty Home Bible Institute.

Since January 1986, 5,000 new students have been enrolled in LHBI. In March 1987, 400 regular students were enrolled in modular courses. In May for the annual university commencement service, 77 LHBI students traveled to the campus to receive their diplomas.

Lynchburg Christian Academy provides Bible-based Christian education for students from kindergarten through the twelfth grade. The school enrolls 1,097 students and offers a full curriculum as well as organized sports, honor societies, and an outstanding music and arts program. A day-care program currently enrolls 125 preschool children.

Close-Up

A Look at a Champion

David Rhodenhizer, one of LU's first graduates, planted New Life Baptist Church in Alexandria, Virginia, in 1977. Fifty-one people attended. In 1979 the church merged with and adopted the name of Calvary Road Baptist Church. Average Sunday attendance is 1,000. The church's ministries include AWANA, Alcoholics Victorious, Overeaters Victorious, HER—Hearts Ever Reaching—a women's Bible study and outreach ministry, the Senior Ambassadors, a youth ministry to at least 100, and a bus ministry which brings in around 400 each Sunday.

Dr. Falwell believes churches should support church planting. He has led an international effort to train full-time Christian workers and has sought to provide the financial means to support them. God has allowed us to plant over 400 churches with our graduates and assume the pastorates of 500 other churches.

Old-Time Gospel Hour Ministry Report 1987

Prepared by the Executive Committee of the Old-Time Gospel Hour

Old-Time Gospel Hour
2220 Langhorne Road
Lynchburg, VA 24514
1-804-847-9000

Chairman PICKLE. We thank you. Your statement has been very helpful to us, and I think it will be helpful to people throughout the country.

You have been quoted in the press and in speeches as saying that, if a religious organization is tax exempt under 501(c)(3), does participate in unrelated business activity, they ought to pay a tax.

Reverend FALWELL. Absolutely.

Chairman PICKLE. If they are for profit and they are in competition with other businesses, they ought to pay a tax.

Reverend FALWELL. And it is hurting all of us that some are not paying taxes, because we all are lumped in one great big broad brush. For example, at PTL, as the chairman, in our reorganizational plan, Mr. Chairman, we are suggesting, if the plan is approved, that the water slide, the park, the hotels are a for-profit entity paying taxes.

Chairman PICKLE. Well, then, did PTL have unrelated business income?

Reverend FALWELL. Without a doubt. Most of it. Unrelated income and expenditure.

Chairman PICKLE. Well, did they pay unrelated business income tax?

Reverend FALWELL. No, sir.

Chairman PICKLE. They did not.

Reverend FALWELL. We have been investigating since 1981, and I want to say something in defense of the Internal Revenue Service. While I have once said that I wish they would hurry along and either hang us or set us free, at the same time that is purely because of our own frustration in trying to find out do we still exist. For example, do we owe them $80 million? If so, I have got the key I want to give them. And if we do not—but I do think that they have operated with all the caution and carefulness that this committee is operating with here today.

Chairman PICKLE. It is your opinion, though, that the theme park operated by PTL was for profit and should have been reporting to the IRS and should have paid UBIT taxes?

Reverend FALWELL. Absolutely.

Chairman PICKLE. By way of example.

You know, one of the problems I have when I talk to representatives of television ministries is that they say everything their organization does is related to their religious purpose, and that there are really no exceptions.

Reverend FALWELL. Well, Reverend Ike says that. But, you know, everybody has got the right to say what they want to, but somebody has got the right to question whether it is so or not.

Chairman PICKLE. I was going to ask you what was the most shocking violation of the tax laws that the PTL has participated in, but you have made the statement that they should have been paying taxes and that actions may be held against them.

Reverend FALWELL. And the salaries were obscene.

Chairman PICKLE. The salaries were obscene.

Reverend FALWELL. There is no way to justify that.

Now, is it illegal? I do not know the answer to that. I do not think anyone does right now. I just heard Reverend Ankerberg say that if there are persons crazy enough—and there are a few—to support a pastor receiving a $2 or $3 million salary, I doubt if anybody could do anything about it as long as he tells them—you know, there is a preacher on television right now, who I believe Congressman Rangel may have been referring to, who sits in a chair; he has white hair and a hat and boots, and he said, "I am the most honest of all the preachers because they tell you, 'We are raising money for our university and for this and that and for missions.' I am telling you I put it in my hip pocket, and you do not get an exemption and send it in."

I do not know how you handle that, Congressman, because there is still enough stupid people out there to send in $66,000 a day and underwrite the fellow.

Chairman PICKLE. Well, I am not going to ask you to identify that fellow, but I am interested in knowing more about him. [Laughter.]

Reverend FALWELL. I think he is a very honest guy. He is better than Bob Hope. I listen to him regularly.

Chairman PICKLE. I am not going to prolong this, but we have the regulation under the law that if a church becomes a tax-exempt organization, religious organization, they have got to operate exclusively for charitable purposes; they must refrain from political action; they must not engage in substantial amounts of legislating or lobbying activities; if it engages in unrelated business, they should pay unrelated tax; and that earnings cannot go to the benefit of a private individual. Now, I assume that your organization complies with all those or feels you do, but you file your 990 and your 990T. Do you object to filing the form 990 or 990-T voluntarily, or at least the 990?

Reverend FALWELL. Not for Old-Time Gospel Hour or any 501(c)(3) that I might ever been involved with that is not a church. I think that whenever you step outside the umbrella of a local church—and there we have a terrific problem with definition. But once you step out, and we clearly have done that by choice, we also assume—you know, I think that 501(c)(3) is a right. I think that Dr. Kennedy is correct. But I think it is a right with responsibility: for accountability, openness, integrity. I think it is a right with the responsibility of fairness and equity in dealing in areas like salaries, the use of the funds for areas where the person did not intend. And the Congressman brought up a good point earlier regarding our cutting of 51 of our 392 stations, and the article did say exactly what was quoted. What the article did not say is there was no transfer of funds.

We have had our record year in financial giving this year, except in the area of television. And the undesignated funds that are given by our church, our parishioners, our people who write in and just say use as you please, we generally use it for capital items, for constructing dormitories and classrooms, et cetera, or debt repayment. This year we have had to use it for television to stay on the air so there is no shifting of funds. We have that latitude.

I might say, to answer the question that was not answered for you, there probably is no illegal activity in a 501(c)(3) between (c)(3)s to transfer funds, but I think there is an ethical issue. I think there really is an ethical issue, and I think that, for example, to say I need $10 for Liberty University and the $10 comes in for

Liberty University and I use it to buy television time for Old-Time Gospel Hour, I may not have violated the law, but I think ethically I have a problem there.

Does that answer you?

Chairman PICKLE. For my information, before I go to the next question, how many enterprises do you have?

Reverend FALWELL. Well, the Old-Time Gospel Hour is a corporation that is here under this jurisdiction. Thomas Road Baptist Church I am also pastor of. That is a 22,000-member local church in Lynchburg, Va. Liberty University, I am the chancellor, Lynchburg Christian Academy, the president; Liberty Broadcasting Network, the chairman; and also Liberty Federation, Moral Majority are my responsibilities.

Chairman PICKLE. What is the revenue from all your operations?

Reverend FALWELL. Year just ended, about $100 million. A little shy of $100 million.

By the way, I publish, I give out my salary. I have no problem doing that. I even reported my income from commercial ventures. For example, I speak; I am on the speakers' circuit regularly and often follow, at Harvard, George McGovern. Around the country, usually they will have a token conservative there once in a while, and I will go in and speak. I always make them pay me whatever they pay the liberal predecessor. And I report that.

I write books, one that just came out, Simon & Shuster, they were foolish enough to give me a million dollar advance, and I accepted it. Now, we are giving it to scholarship students, and we are giving it to our new church construction. But there was no restriction on it. I paid taxes on it first and reported it publicly, and it was in the Washington Post. And I never got a response on it. Nobody gives a doggone as long as you are not doing anything illegal, unethical or hiding it under the table. We are very careful not to do that, and I do not mind publicizing what my salary is from the ministry and do do it and our people know what it is.

Chairman PICKLE. Thank you.

Now, Mr. Schulze?

Mr. SCHULZE. Thank you, Mr. Chairman.

Thank you, Reverend Falwell. I think your testimony has been most enlightening.

I would like you to give me your views of the most important aspects of EFICOM. What are the things, the very key aspects of EFICOM?

Reverend FALWELL. EFICOM, the letters means Ethics and Financial Integrity Commission. It is going to be the finest thing that has happened in Christianity, in evangelical Christianity, I think, in recent times. We really have not had a call for it.

You know, the people vote with their checkbooks in a very real sense. There has not been a cry for it until now. Now, the demand is there.

It means we will be doing what the ABA does for itself, what the AMA does for itself, policing our own members, and admittedly, we are being forced to make it tougher than we would have maybe one year ago. And I think that eventually will be to our good.

I will just briefly mention and leave the rest of Dr. Armstrong, membership in NRB——

Mr. **Schulze**. I do not necessarily want you to run through the whole thing.

Reverend **Falwell**. All right.

Mr. **Schulze**. Just in your opinion, what are the key aspects?

Reverend **Falwell**. The key aspects are: No. 1, you cannot belong to NRB without being an accredited member of EFICOM; two, you must have an external auditor; three, your financials must be public; and any donor must be able to request that information and immediately gain access to it, plus your 990. You know, you can contact the IRS and get that, but sometimes they have lost it and sometimes it is 6 months later. What NRB is saying is you get it immediately, within a reasonable period of time. You cannot have nepotism. For example, the board members I just read to you, there is no one there kin to me. And in all of our ministries, they are requiring all the ministries, regardless of size, no nepotism.

Beyond that, a publication, a publishing of the salaries of the principals involved, and not just salaries but all incomes for whatever purpose. It is so easy to conceal income, housing allowance, this, that and so forth, everything that comes from the tax-exempt funds of the organization.

Those kinds of fund-raising, for example. This is a very important part. Bait-and-switch issues; you cannot raise money with a heart-rending story about a child in Haiti who is dying of hunger and raise millions of dollars for that, and then put it elsewhere. We must keep in our possession for 1 year every fund-raising letter, every audiotape, every videotape, everything that our ministry used that could have been construed directly or indirectly for fund-raising and, upon request from EFICOM, make it all available to them for investigation.

I am thinking there are either 80 or 90 members of that board. There are some hundreds in membership in the organization. I think we are going to find that this is going to be the toughest thing that the Christian Church has walked up before, and the arrogance that we all have been guilty of in the past of you are not going to tell me anything, first amendment, here it is, hang it up, is over. I think you are going to find everyone now, not because of fear of the Congress or IRS, but because of the media, we have an informed public out there who can read and write. They know the difference now between charismatic and fundamentalist and evangelical and main line. They know all that stuff that nobody ever knew before. They know who is publishing their financials and who is not. They know who lives in a $5 million house and who does not.

You know, that is the good thing about all of this. We are all naked before the public now, and those who deserve to survive will and those who do not will not, and the quicker the better.

Mr. **Schulze**. I think most of the members of this committee agree with you. I think if that were in effect now, we probably would not be here today.

How long do you think it would take? I also agree with you that I would like to see this done without us changing one letter of the law. Now, do you think in a year, 2 years, 3 years, 5 years, 10 years, that that would be prevalent, that it would be widespread?

Or do you think it is going to take longer or do you think shorter? Just how long do you think it will be?

Reverend **FALWELL**. I can only speak for NRB of which I am a board member. A person will have 2 years to get in full compliance. The reason for that, a mom and pop organization, a reasonable approach. Two years from January, again, let me put this in quotes, "assuming passage by the constituency of the NRB"—I think that is foregone, but I dare not speak for them. Assuming passage, 2 years it is history.

You know, I have heard two or three times people saying, well, PTL belonged to ECFA before this all happened. That is no fault of ECFA. The Better Business Bureau has had its failures, too. Wall Street has had its problems. All of the business world has. And when you are talking about fraud, no accrediting agency can be held responsible for what a singular ministry out there may do. But I think without any passage of legislation, you are going to find an IRS who is more sensitive because they have got to check up here with you guys once in a while, and the public as well. You are going to find, I think, a White House that is more sensitive. I think you are going to find a Congress that is more sensitive to this, but more importantly, the general public. The general public today is demanding—demanding—accountability, and this year I heard Billy Graham say—and by the way, someone said this morning on Good Morning America, made the statement Dr. Graham is not coming in, Reverend Swaggart is not coming in. Dr. Graham is ill, as the chairman knows, and it is not that he is not coming because he is against what you are doing. He is ill. And Reverend Swaggart is holding a crusade outside the country, so I need to point out that nobody refused to come here because they are against what you are doing. That is not it.

But I believe that most of the ministries, well, 75 percent belong to NRB. But I believe that most of the ministries in this country are reputable, worthy and honest. We do have our thugs like everybody else. If you will send them a few bucks, they will send you some water out of the Jordan and they will bless our handkerchief, and they will tell you to put your hand on the TV for contact—and that thing was taped 4 months ago. For a point of contact, if you want to really give a blessing, put your hand in the TV. I mean, the whole thing is ridiculous, but there is an informed public out there now who now knows better. They are going to call our hand every time.

Billy Graham, I heard him say, his giving is up this year now. Our general for total budget giving is up this year. I suspect Jim Kennedy could say that. But I will tell you what has been hurt. There is a donor paralysis today in this country towards supporting ministries on television, not because they think everybody is a crook but because—even the Salvation Army acknowledged their promos have not been responded to as in the past.

There has been a terrific credibility problem caused that will not go away in a year or two any more than Watergate was gotten over in a matter of months. Running on the Republican ticket in 1976 was tough. Being on television as a preacher today, after PTL, is tough. We will survive it, but when it is all over we will be better for it.

Mr. SCHULZE. Thank you very much.

Chairman PICKLE. Before I recognize Mr. Anthony, let me say that we have received a very excellent statement from Dr. Billy Graham. His health did not permit him to be here, but he has answered the question and given us a full statement. You are correct that Reverend Swaggart is out of the country now, or he said he would have been here. I want to make sure that is known why they could not be here.

Reverend FALWELL. I do not sense any opposition among our men against what you are doing. Fear that things may get too extreme, but not opposition.

Chairman PICKLE. Mr. Anthony.

Mr. ANTHONY. Thank you.

Reverend Falwell, I understand that there was some special legislation passed in the state where you are headquartered at that gave your organization tax-exempt status.

Reverend FALWELL. Right.

Mr. ANTHONY. From property taxes. I also understand that it was not made retroactive so that there is a bill due. I just wondered if you could tell us what the status of it is.

Reverend FALWELL. Yes. Liberty University, the Liberty Godparent Home for Unwed Mothers, and the office building from Old-Time Gospel Hour, the office headquarters, were never tax-exempt, or they were for a while but were not tax-exempt for the past numbers of years; and a 10-year case has been pending in that city awaiting a State supreme court hearing as to the taxability of those organizations for real estate purposes only, not IRS.

The argument was that Old-Time Gospel Hour, Inc., a 501(c)(3) organization, holds the properties of Liberty University, the Godparent Home, and the office building. Had we been willing to place the university in the name of the university for ownership, that would have been no contest.

We decided to do it the way the Roman Catholics do, to own it through a diocese; that is, to own it by a parent organization, for the same reasons that the Roman Catholics, Episcopalians, other such main-line churches hold property to guarantee that 500 years from now it will still be a Roman Catholic school or evangelical school or whatever.

In our State, there was no precedent for that. We, through an allowance of the statutes of the State of Virginia, went to our city council who approved our tax-exemption and retroactivity. Then they, the city of Lynchburg, presented it to the State legislature, requiring a three-fourths vote of the House, meaning 75 members of the 100 members, a three-fourths vote of the Senate, meaning 30 of the 40 Senators, and the signature of the Governor to grant that tax-exemption.

We received an 82–18 vote in the House; we received a 37–3 vote in the Senate. The Governor signed it. But in the process of those smoke-filled rooms between the city council passage and that overwhelming vote, there were some negotiating things on the table—retroactivity was one of them—and we agreed to compromise and pay the retroactive taxes; namely, $1.8 million in real estate taxes. The city of Lynchburg committed to allow us to repay that monthly for 3 years at about $50,000 or $60,000 a month, something like that, and we are so doing.

Mr. ANTHONY. Thank you.

You testified earlier about the transfers of money collected for one purpose and transferred to another. Have you transferred moneys from the Moral Majority which was collected for political purposes over to the Old-Time Gospel Hour, which is for ministry purposes?

Reverend FALWELL. The Moral Majority and Liberty Federation are a 501(c)(4) and 501(c)(3) organization respectively, both basically for political purposes; the Moral Majority mainly issues that we would call moral—abortion, pornography, family values—Liberty Federation, primarily the Reagan agenda, that type thing.

We have, through the past 8 years of the existence of Moral Majority and the last 2 or 3 years the existence of Liberty Federation, on many occasions raised funds by direct mail clearly designated from the Liberty Federation and Moral Majority mailing list for purposes of building a godparent home for unwed mothers, operating godparent homes, producing my Old-Time Gospel Hour television programs on nuclear freeze, school prayers, abortion, pornography, et cetera, and have properly applied all those funds exactly as designated, approximately $6 million worth the past few years. Not one dollar diverted, every dollar directed as the donor gave it, without a tax exemption; tax deduction to Moral Majority.

Mr. ANTHONY. Do not misread my question.

Reverend FALWELL. You read that in the paper.

Mr. ANTHONY. I read it in the paper. It is the only thing I know about it. The New York Times, Sunday, August 23.

So the answer is, yes, you have transferred moneys from the Moral Majority over to another organization?

Reverend FALWELL. Yes, we have.

Mr. ANTHONY. But in compliance, you say, with the spirit of the law?

Reverend FALWELL. With the spirit of the law and the spirit of the contribution.

Mr. ANTHONY. And the spirit in which you asked for the contribution.

Reverend FALWELL. That is correct.

Mr. ANTHONY. In terms of your political speeches, I assume you do make comments on moral issues, legislative issues, and also——

Reverend FALWELL. I do.

Mr. ANTHONY. I guess my question is: In what capacity are the statements made—as the pastor of Thomas Road Baptist Church, president of Old-Time Gospel Hour or founder of the Moral Majority?

Reverend FALWELL. If I make those statements in the pulpit of Thomas Road Baptist Church, I am making those as a private individual. As a pastor of 22,000 people, I would imagine a majority of my members are Democrats by background. Hopefully, they voted for Mr. Reagan the last two times around, but I would say that they are primarily Democrats in our town. Maybe not so; it could be 50–50. I have never taken a poll on that.

But when I make those statements, I make those statements in the pulpit as an individual and always, always, deal with the morality of the issue. I personally believe that abortion is a moral issue; it has become a political issue. That is why Moral Majority exists: to lobby, to deal with those issues legally within the law. But I have reserved my right of free speech as a pastor to speak on the morality of the issue, as any Catholic priest or other pastor would do.

Mr. ANTHONY. What about on your 501(c)(3) organization? Do you talk about political issues and legislative agenda there?

Reverend FALWELL. Yes. For example, in the Thomas Road Baptist Church pulpit, I would not hesitate to say that I pray and trust that one day we will have a Supreme Court that will modify or reverse *Roe* v. *Wade*; I would not hesitate to urge all of our members to register to vote. As a matter of fact, we have had registration of voters on the front lawn of our congregation, and I have done that with thousands of churches across the nation where it is allowed in that particular State. We have not only registered those voters, we have urged them on election day to go to the polls to vote. Where we stop, Congressman, is we do not in the pulpit or in a church setting or under a 501(c)(3) heading ever campaign for, work for the election or the unelection of any person for any office.

Mr. ANTHONY. Thank you.

Mr. Chairman, I will just close by making one final comment.

Reverend Falwell, I guess you were trying to defend the IRS because maybe I started off indicating that I was a little disappointed that they had taken so long to complete one of their investigations. One of the reasons I am a little bit concerned about it, and it comes from the Commissioner's own testimony, you have got a 2-year statute and a 3-year look back. So there are certain time constraints in the statute of limitations that protect the perpetrator of any type of abuse.

I assume the criminal activity, if there is such, would have probably a longer statute of limitations involved.

But Mr. Dorgan, I think, really crystallized my thought on it, and that is management. My personal opinion is, if the regulatory bodies had done a more aggressive and a better management of the cases that had been presented to them, I daresay that your own organization would not be in this expedited method of trying to prove to the public that you are moral and that you are doing the proper and the right thing.

Reverend FALWELL. That could certainly be.

Mr. ANTHONY. But I certainly applaud you and encourage you to continue in those efforts.

Reverend FALWELL. Thank you.

Chairman PICKLE. Mr. Thomas.

Mr. THOMAS. I thank the chairman.

Thank you very much for coming, Reverend Falwell.

Can we spend just a minute talking about EFICOM and, in the very limited time that we have, the motivation for bringing it about? I apologize. I have other hearings that I am attending, and if you have covered any of this, let me know.

When was there a felt need for this? This obviously did not come out of the current events—or, in fact, did it?

Reverend FALWELL. NRB has always had a set of standards but has—and I think this is a true statement; Dr. Armstrong might qualify it a bit—but has lacked the teeth to do anything with those requirements and standards. For that reason——

Mr. **Thomas**. As has been the case with many peer group reviews among doctors, lawyers and other professional activities.

Reverend **Falwell**. I have been there for years and years in leadership, and I never recall a censure of a person because of something, even when most of us believed it was going on. Most of us did not want to be accused of being judgmental or jealous of another ministry or attacking another ministry.

We are now pinned to the wall by the very nature of the atmosphere to do what we probably—not probably—should have been doing all the while. EFICOM, as we now will see it shortly, began last year before PTL, before any of us knew about PTL. I am glad that is true because we can sit here and say that we did not get our hand caught in the cookie jar and decide we had better straighten our house up or you guys are going to do it for us.

But what has happened is an expediting. We probably would not get through this January; it would probably be another January. We would probably not get past this January—it will be passed, in my opinion—had it not been for what did happen in March. And nobody is going to admit this, but these hearings are helping us keep very religious in that procedure.

Mr. **Thomas**. Is it going to be voluntary membership?

Reverend **Falwell**. Membership in NRB has always been voluntary, of course, but membership in EFICOM is not voluntary if you belong to NRB.

Mr. **Thomas**. OK. The Better Business Bureau has a voluntary membership as well.

Reverend **Falwell**. That is correct.

Mr. **Thomas**. But people who belong to it display the plaque and in their advertising oftentimes indicate that they are members.

Reverend **Falwell**. Yes.

Mr. **Thomas**. You stated in response to a question of Mr. Schulze that all of you are naked before the public now. To what extent is EFICOM going to point out that the emperor does not have any clothes in terms of someone who is or is not a member? Or are you saying that, given the knowledge that the public has, the public can readily determine?

My concern is where do you folks take an advocacy role for proper procedure versus simply being there if someone knows you are there and wants information from you?

Reverend **Falwell**. I think the members of NRB, 75 percent of the broadcasters and all the major broadcasters, has a responsibility of publicizing our existence and our accreditation provisions. We certainly have no right to blacklist others who have not joined NRB and who, therefore, will not be EFICOM members. We have no intention of doing that. But we certainly will in a positive sense print our membership on a regular basis, make it available to any and all upon request.

I think second the media will be for us what they are for you—the ever-watching watchdog to see that this is carried forth to the intent of its goals.

Third, I think an increased intelligence level among the public on these issues will be helpful.

But I would have to stop right there and say we will always have the charlatans; we will always have the "prosperity theology" and health and wealth boys; we will always have somebody to support every nutty thing that exists.

Mr. THOMAS. I understand that, Reverend, but in a positive sense, trying to communicate to people the fact that it is a self-help program, do you envision your television ministries placing on the screen words or appropriate comments about the group that you belong to? And do you envision other television ministries placing words or statements made on television promoting this within your programs?

Reverend FALWELL. I think most of us will be very wise if we somewhere in the program, like a Good Housekeeping seal, just subliminally have it right there, "Member of EFICOM, subsidiary of NRB," until the general public looks for it like they look on a commercial business for a BBB.

Mr. THOMAS. That was my suggestion, and I wanted to know whether or not you felt not just in the printed materials but in the primary communication device, television, whether you were going to try to not just put EFICOM there, but to try to explain what it stands for and the fact that it is voluntary?

Reverend FALWELL. We are doing that now. We just did a national show with Dr. Ben Armstrong, our primary guest, talking about EFICOM, what our goals are, not soliciting a vote in January but soliciting from the public pressure upon all of our constituent members that the vote will go as it should.

Mr. THOMAS. Thank you very much.

Chairman PICKLE. Mr. Flippo.

Mr. FLIPPO. Thank you.

Reverend Falwell, I want to thank you for your testimony, and I think it is probably one of the most complete set of financial statements that I have seen in testimony before the committee. I appreciate that. It is very adequate.

One of the questions I had was along the lines that Mr. Anthony was pursuing in regard to the 501(c)(3) organization and the 501(c)(4) organization. The (c)(4) is for political purposes.

Reverend FALWELL. Contributions are not tax deductible. The organization is exempt.

Mr. FLIPPO. Yes. 501(c)(4) is for political purposes, and 501(c)(3) is not for political purposes.

I am wondering if you make the solicitation and suppose you solicited me, how would I know whether or not you were soliciting the funds for the 501(c)(3) or the 501(c)(4)?

Reverend FALWELL. We always state in our letter if it is (c)(4) your contribution to this program is not tax deductible. We also have a reply device enclosed in the envelope where you print your name and address, the amount of your contribution, and you send that back in the enclosed business reply envelope or reply envelope, printed on that, contributions to Moral Majority, Inc., are not tax deductible.

Mr. FLIPPO. I see. Well, I think that is something that is worth exploring, but we have very limited time here. I did want to ask you, in your financial statements, you showed one line called Government appropriates, restricted. What Government appropriations? Could you elaborate a little on that for us?

Reverend **Falwell.** Yes. Unlike Planned Parenthood, we are not underwritten in any way by the Federal Government. Our students, however, obtain Pell grants, student loans, funds that are clearly restricted funds which we cannot touch. They belong to the student, and they are on work scholarship. And as they work off each week their responsibility, those funds are released to pay that student for his or her services.

They are restricted funds; they belong to the student, not the university; and those are the only Government funds we get by determination.

Mr. **Flippo.** I thought it would be helpful to clarify that area.

You have another area of great interest, and that is in the deferred gift area, where individuals are able to make a gift in return for which the ministries pledge to pay them a sum of money or annuity.

Reverend **Falwell.** In trust.

Mr. **Flippo.** Yes, in trust. Is that a very large percentage of the overall operations?

Reverend **Falwell.** It is not in our organization; it is in major universities. Many of the very large universities, like Harvard, would have a large number because of their age, their tenure, a large number of trust, actual funds in trust which the donor receives a lifetime income from. At his or her death or both deaths, the institution receives the full corpus or the full collateral.

Mr. **Flippo.** But those gifts are governed by the trust document, then, and in that sense are regulated.

Reverend **Falwell.** That is correct.

Mr. **Flippo.** I see. Well, I want to thank you for your testimony today, and I appreciate in particular your willingness that, in the event the committee were to look at any recommendations, that we could sit down and talk about how they might apply. I thought that was a good suggestion.

Reverend **Falwell.** I might add that I do not feel, Mr. Chairman, that—I was hearing a lot of the question maybe coming from others, I think, Mr. Anthony—that I feel that filing a 990 is an intrusion or violation of the first amendment. I do not. I think it might be for a church. I think it might be getting very close. But I think the church ought to voluntarily do that, and I do think that churches should not be any more exempt from investigation by the Internal Revenue Service than a 501(c)(3) that is not a church.

Now, I know that we look at that as very sacred, but if there is reason to believe that a church is involved in something of a criminal nature, I cannot imagine a member of that church wanting exemption from any such investigation. We had a full-blown Internal Revenue audit in 1981 of Old-Time Gospel and the total ministry and received a clean bill of health. Our counsel was just telling me, I had forgotten about it. I don't know how in the world I did. But I had forgotten about it, and if they walked in tomorrow, you know, I can imagine how that could become harassment if they want to stay there forever and eat up space and get on picayunish things. But I cannot imagine that is a violation of first amendment rights if they have some reason to believe we are doing something that is illegal.

Mr. **Flippo**. I just want to thank you for your testimony. Thank you.

Chairman **Pickle**. Dr. Falwell, how would the Internal Revenue Service know that there might be something going on within the church that would be of an untoward nature unless they had some kind of annual reporting form?

Reverend **Falwell**. Well, I think usually somebody gets burnt out there, gets hurt, or a former employee gets embittered and fired and leaves and takes all the records with him.

Chairman **Pickle**. You are saying, then, that even if they are given information or evidence that there might be something wrong, you do not know if that is enough.

Reverend **Falwell**. Just like any public business. You might never suspect, you know, inside trading on Wall Street until somebody blows the whistle.

Chairman **Pickle**. I understand.

Reverend **Falwell**. But usually, there is somebody. You know, you can get by with this kind of thing for a while, but always there will be somebody. Nobody is ever smart enough to get by with it forever except the Mafia.

Chairman **Pickle**. Thank you.

Now, Mr. McGrath?

Mr. **McGrath**. Thank you, Mr. Chairman.

Reverend Falwell, welcome. Thank you for your testimony. Regarding my prior questioning of the IRS Commissioner, I had not intended to blow the whistle as to which organization until you did it yourself.

Reverend **Falwell**. It is the New York Times.

Mr. **McGrath**. Just to get back, if I could, to that subject of related organizations under the umbrella of one 501(c)(3) or whatever. I see by the briefing material that we have that you have three related organizations which are exempt: Thomas Road Baptist Church, Lynchburg Christian Academy, and Liberty University.

Are there any others among the 17 other related ministries that you have itemized in your testimony?

Reverend **Falwell**. They are all owned by one of those entities. I think you mentioned Thomas Road Baptist Church, didn't you?

Mr. **McGrath**. Yes, I did.

Okay. So we are talking about three exemptions.

Reverend **Falwell**. Yes.

Mr. **McGrath**. That cover all of these other activities.

Now, I tried to solicit from Commissioner Gibbs whether or not the 990 form that you presently voluntarily file carries items which would allow the evaluation of whether the income is either properly or not properly allocated, whether expenses are properly allocated, staff and equipment properly allocated, transfers of funds and equipment, whether or not those sort of items are properly allocated. I just want to know whether or not these kinds of items are going to be covered in your independent outside audit in order to be a part of EFICOM.

Reverend **Falwell**. They are, indeed. As a matter of fact, they are footnoted in the financials we gave to you so that you can read what amount went to which organization, from which organization, for what purpose. That is all footnoted by Coopers & Lybrand, and I do not know—we also have a ministry report which I think I made available to each of you in which we go into greater detail. We actually in a circle slice the pie as to what goes here, there, and then have the figures beside so that a lay person, not an accountant, can draw a line from this to that and understand what these words actually mean.

Mr. McGrath. In other words, you are saying that the audits that you are going to require in order to be a member of EFICOM and the National Religious Broadcasters are more encompassing than the 990 form which——

Reverend Falwell. Very much more. And I might add that the Internal Revenue Service already has the power to ask more questions in the 990 without further legislation. I am told by our counsel and accountants that the Internal Revenue Service, if more information is needed, more detail, they already have the power to add those questions in the 990. My advice would be if there is a troublesome area without further legislation spell out what you really want to know in detail and request it be filed.

Mr. McGrath. Let me turn to another subject: mailing lists. Is it common practice not just for your own operation or that of PTL or anybody else who may have testified or who may not be here to exchange mailing lists between those which are solicited for 501(c)(3) purposes as opposed to 501(c)(4) purposes?

Reverend Falwell. Do you mean under a single umbrella ministry or outside?

Mr. McGrath. Well, they may even be related. One may have a——

Reverend Falwell. Well, we have never rented or sold or allowed free use of any of our mailing lists by any other organization, (c)(3) or (c)(4), period. We feel that there is a confidentiality in a mailing list, and we even seed our lists so in case someone for some reason steals the list——

And because that is very damaging to your donor list when they write to you, it is to your great advantage never to allow anyone under any circumstances to use your donor list—and that would be the practice of most Christian broadcasters I know of.

Mr. Anthony. You answered the previous question on your own, regarding the transferability of funds between 501(c)(3) exempt organizations under one umbrella.

How do you feel about boards of directors that may be common to each of these organizations under the same umbrella? Is that ethical, too?

Reverend Falwell. While that is not our case—for example, our board of deacons would be one list of, I do not know, 25, 26 persons; our board for Old Time Gospel Hour would be another group of 9 or 10 persons—and I have the board list here, which I will make available to you for the record—while our board members, there are some on all boards—I am, for example, on every board—and I see nothing wrong with that. At the same time, we do not do it simply because it is to our advantage—our board members are very busy—we could never get Nelson Bunker Hunt to seven board meetings; we get him to one, twice a year, at great duress, and often hold it in Dallas to get it done that way, like next week. We would never get some of the very busy persons who lend their time and expertise and money to us to attend those meetings.

So for practical reasons, we try not to overwork our business leadership who are board members.

Mr. ANTHONY. Thank you very much, Reverend Falwell. You have been very helpful.

Chairman PICKLE. The Chair recognizes Mr. Dorgan.

Mr. DORGAN. Thank you, Mr. Chairman.

Reverend Falwell, thank you for appearing today.

I would like to ask you a couple of questions about some criticism that you have received in the press and some others have received in your industry on what some have labelled "bait and switch". This involves someone in the industry making an appeal for funds based on one project and then in fact spending the money for something else.

I do not know what the facts are or what the truth is, but you have probably seen criticism that I have seen——

Reverend FALWELL. Yes.

Mr. DORGAN [continuing]. Of your organization. One instance involved raising money for some Sudanese relief, another was raising money for a television transmitter tower. The allegation was that the money was raised for that; that was the basis of the appeal, but in fact the money was not spent that way.

Some have suggested that this technique was used in PTL for a number of years. I would like to ask you, whether your organization has developed a self-policing mechanism to deal with financial issues. I am not suggesting the practice exists either with you or someone else; I was simply reciting what some have alleged. I would like to ask you to respond to the criticism of you and others. How will the organization that you have put together deal with that kind of issue?

Reverend FALWELL. Yes, I will take it in order. First of all, those two instances you mentioned—first, the radio tower that allegedly fell, and we allegedly raised funds for, which was allegedly insured in full, and so forth, was not a statement based upon fact. We had partial insurance; I think maybe just a fraction of what the cost was. After we had raised the funds and collected the insurance, we still had a net loss. By the way, the national newspaper that printed that article, in a letter apologized to us for being incorrect.

The other issue of the African fundraising, you probably may have been watching Nightline; it appeared one night on Nightline. The next night, Ted Koppel, being the very fair and honest gentleman that he is, apologized for having used the story, because it was nonverifiable. The reason it was nonverifiable was that it was not true.

But yes, it is used; yes, it has been used extensively. I think it is clearly addressed in the EFICOM standards. It will be clearly monitored because, as I said earlier, EFICOM requires that every letter we mail, every radio and television program that we produce, all the tapes, data, documents be kept for one year so that we can, during any one 12-month period go back as far as 12 months to investigate a complaint of such bait-and-switch tactics.

Mr. **Dorgan**. When you say it has been used extensively, can you give me an amplification on that?

Reverend **Falwell**. Well, I would not want here to be on record as naming names and all the rest. But I am sure you have read these in the periodicals, just as I have. It is not used as widely right now as it has been.

I am more appalled—that is bad, of course—but I am more appalled by the kind of gimmickry that is on the air and through direct mail used, where persons are told that if you as a person with a terminal disease or ill or in poverty will give *x* number of dollars to this ministry, whether it be called seed faith or whether it be called whatever—prosperity theology—certain good things will happen—for your thousand-dollar gift, you will receive $10,000; if you have the faith, and you make the right gift, you will be healed of your cancer—those are very debilitating and frustrating things to permanently ill persons or poor persons who are going to unfortunately remain poor in Third World countries, and who give and who do not get and who feel that maybe God does not love them because of that.

Mr. **Dorgan**. Well, I thank you for that testimony. I take it from your statement that you disagree with Reverend Kennedy's statement earlier today that the very presence of these hearings is an affront somehow to free speech and freedom of religion.

Reverend **Falwell**. Well, I share his concern if we allow this to be, in the term he used, the head of the camel under the tent, if it is the beginning of something that will infringe upon excessive entanglement, first amendment rights.

I have had from the start access to Congressman Pickle. I was in his presence for the first meeting. I have gone through every letter, every statement in the media. And I have not yet detected one instance of an attempt to do that.

Now, concern, of course, it is there; I share Reverend Kennedy's concern. But I do not believe that you are investigating me, or I would not have come, or I would have had two or three attorneys sitting here, or whatever. I do not think you are investigating me.

I think that what probably upset Dr. Kennedy and some of the others who are testifying today is that while you clearly stated—and I believe you; this is not an investigation and has nothing to do with doctrine or message—you have, in spite of that, invited Richard Yao of Fundamentalists Anonymous to be here. He is not an expert on the issues you are dealing with. I do not think in his organization they claim to be a tax watchdog organization. They, rather, are in existence for one purpose only: to criticize the doctrine, the preaching, the teaching of evangelicals and fundamentalists and the alleged debilitating results it has on adherence to fundamental Christianity.

I think having him here sent a shock wave right through the evangelical camp that this is doctrinal, this is an investigation—and I think it was inadvertent. I do not think the committee maybe knew who Richard Yao is and what his organization is.

For example, if you had had somebody here who had started "Roman Catholics Anonymous" or "Judaism Anonymous"—you do not have to go to the KKK, just someone with those kinds of buzz words—immediately, there would be an outcry.

We evangelical Protestants have that same internal feeling when you bring in a person whose whole ministry and life is dedicated to doing injury to the doctrine, the preachments, and so forth of evangelical Christians.

Mr. **DORGAN**. Thank you, Reverend Falwell.

Chairman **PICKLE**. The time of the gentleman has expired.

May I remind, Dr. Falwell that all witnesses will be asked to confine their testimony to the purposes of this hearing and not to wander off into any other area. So, we hope that will be adhered to.

Now, Congressman Rangel.

Mr. **RANGEL**. Thank you, Mr. Chairman.

Thank you for sharing your views with us, Reverend. I do not know how Roman Catholics got involved in your last response, but——

Reverend **FALWELL**. They got involved because Mr. Richard Yao is here.

Mr. **RANGEL**. I hope you would pray that we do not deviate from the fairness standard that has been set by our chairman.

Reverend **FALWELL**. All right.

Mr. **RANGEL**. There was also a newspaper report that there were funds interchangeable between the Moral Majority or the Liberty Federation and the religious organizations and that the directorships were held in common.

Would you care to comment, Reverend, on that?

Reverend **FALWELL**. Yes. That question was already asked by someone here. I will be glad to answer it again. It was asked by Mr. McGrath.

Through the years, Liberty Federation and Moral Majority have periodically raised funds for the political science programs at Liberty University; an internship in Washington, anything that has to do with politics; the Liberty Godparent Home for Unwed Mothers—that is an abortion issue that we are very politically involved with—TV television specials, prime time specials, dealing with school prayer, nuclear freeze—issues that Liberty Fed and Moral Majority would be involved with. Funds have been raised from that organization, over that letterhead, signed by me as their president, stipulating that these moneys are being raised for these purposes and have therefore been designated and given.

There are many other organizations that we do not control who likewise would be political in nature, who have given to us in those areas to help us.

Mr. **RANGEL**. I guess I did not frame my question correctly. I can understand how you can get all of those moneys for political purposes. I am asking about a paper that indicated that some $1.6 million was transferred from the political funds to the religious funds. It went on further to indicate that some of the religious money was transferred to the Moral Majority.

Reverend **FALWELL**. Yes. That story originated in the Lynchburg newspaper. The reporter is here today.

Mr. **RANGEL**. Exactly.

Reverend **FALWELL**. It was incorrect from the beginning. I sat down with him and his editors and gave all the financial statements. And in writing the story, rather than saying funds were directed, as given and as designated by the donors to these particular purposes, he chose to use the word "diverted"—knowing that that would be a terrific AP wire story, "diverted" with Jerry Falwell's name—and it made the whole country.

A few days later, one of the editors said, well, why quibble over words? That is semantics. Well, the difference between "diverted" and "directed" as far as I am concerned is the difference between dishonesty and honesty. And I raised literal "H" about it, and I will continue to do it.

Mr. **Rangel**. Okay. Then it is not true that the political organizations made grants totalling $6.7 million to the religious ministry over the past 3 years; that would be inaccurate?

Reverend **Falwell**. No. The fact that moneys were transferred as raised under Liberty Federation fundraising appeals and Moral Majority fundraising appeals to Liberty Godparent Home, to Liberty University, to Old Time Gospel Hour as designated is a statement of fact.

Mr. **Rangel**. I see.

Reverend **Falwell**. But the headlines gave a terrific—the word "diverted" is a buzzword; every journalist knows that.

Mr. **Rangel**. Oh, no. I was just wondering that, if I wanted to give political support to one of the organizations that you headed, I may not want to give that same support to the religious organization.

Reverend **Falwell**. And it would not go there. For example, if I wrote to Congressman Rangel—and I may do that in a week or two; everybody is on my list—and asked you for a contribution on Liberty Federation stationery, asked you for a contribution for our Liberty Godparent Home for Unwed Mothers, owned by the Old Time Gospel Hour and so forth, I might not say in the letter that these girls go to church Sunday morning, Sunday night, Wednesday night, and that they say their prayers every night and get Christian teaching, and so forth and so on. I mean, we would not go to four pages to tell what they looked like and all that. But we would clearly, since I signed the letter and told you where it was going, put that money exactly where we told you you were giving it for.

Now, the paper also raised the issue, well, he never mentioned that they were required to go to church. I do not believe there is anybody in Australia who does not think that if you attend something Jerry Falwell runs, you are not going to go to church.

Mr. **Rangel**. No. I am just concerned if I did give to one of those schools that it would not end up in the Republican Party campaign fund.

Reverend **Falwell**. Oh, no, sir, no, sir. I support some Democrats.

Mr. **Rangel**. Okay. And if it did go to the Moral Majority for political purposes to be actively involved in the campaign, it would not get involved in one that——

Reverend **Falwell**. You are exactly right.

Mr. **Rangel**. Okay, good.

Reverend **Falwell**. Thank you.

Mr. **Rangel**. Do you believe that the Congress has a moral responsibility to deal with the question of the homeless or the sick or the hungry or the unemployed?

Reverend **Falwell**. Yes, you do, and so do we as Christians.

Mr. **Rangel**. And do you believe and support legislation that would attempt to give some assistance to local and State governments in this connection?

Reverend **Falwell**. I pay taxes with the hope that some of that money will go to the poor and the needy and the helpless, and I cannot say I do not grumble when I pay taxes, but I do pay them.

Mr. **Rangel**. Good. Do any of your organizations advocate a responsibility in a moral sense as to what you expect your lawmakers to do, whether the religious organizations are your political arms, in terms of setting a standard as to what we should be doing with the taxpayers' moneys?

Reverend **Falwell**. Yes, both positive and negative, if I understand your question. We raise the devil if you are giving money to Planned Parenthood to perform abortions. We fuss if you are not giving money to President Reagan's defense budget and so forth. It is our opinion, of course, and everybody is entitled to it. We openly scream and yell if SDI is not being deployed as rapidly as we think it ought to be—and we do not do that in a bushel; we do it on Nightline and we do it on——

Mr. **Rangel**. Reverend, you have been eloquent in expressing your political views, publicly, nationally and internationally. It is just that I have been missing your remarks as relates to my specific questions, and that is to the poor, to the disenfranchised, to the homeless.

Reverend **Falwell**. In the published statement that you have there in your hand, I point out our Family Center, which feeds, clothes, and provides medical services and other professional services——

Mr. **Rangel**. I know. Your organization has been doing a tremendous job——

Reverend **Falwell** [continuing]. 80 families a week.

Mr. **Rangel** [continuing]. And my time has expired, and God bless all the fine work that you are doing.

Reverend **Falwell**. Thank you.

Mr. **Rangel**. My question really was do you advocate that we in the Congress at least share some of that responsibility with——

Reverend **Falwell**. I do, indeed. I think that probably where you—and I might have some differences philosophically, and we are both entitled to that—would be how much and where is the line between national security and entitlements and——

Mr. **Rangel**. No, no. I am with you with Star Wars, national security, the defense of the President, the Moral Majority, cut off aid for abortion——

Reverend **Falwell**. And we preach very hard.

Mr. **Rangel**. All of those things, you are clear on. Where I am having——

Reverend **Falwell**. I will just try to be a little louder and clearer on what you are preaching, then.

Mr. **Rangel**. Thank you so much, Reverend.

Thank you, Mr. Chairman.

Reverend **Falwell**. Thank you.

Chairman **Pickle**. Do any other members have any questions?

Mr. **Thomas**. Mr. Chairman, very briefly.

Chairman **Pickle**. Mr. Thomas.

Mr. **Thomas**. Reverend Falwell—and I will also ask it of Reverend Armstrong; perhaps he is more appropriate—but I want your opinion on this. That is, as part of the EFICOM program, do you contemplate at all a suggestion or indication to members that it might be appropriate to offer voluntary compliance to IRS in filing forms that are not required of churches, but that the idea of voluntary compliance might help you move in the direction that you are talking about moving?

Reverend **Falwell**. I think that we would go a step beyond that. I think what we would say and have been saying ever since—probably not as loudly as we should have until PTL—that financial statements, which are far more definitive than a 990, audited financial statements, should be available to all donors, and we add in our ministry, to valid media.

We have not always made our financial statements available to the media, to all media. We have done it selectively, as we wished. Now, however, we do make it available to all valid media, simply because of the appearance of concealing something. But to donors, it has always been available.

Mr. **Thomas**. Reverend, I appreciate the answer. But if you are going to go beyond a 990 form, then would you go ahead and talk about voluntary compliance—and on the way to going beyond it, go ahead and fill it out and turn the information in to the IRS on a voluntary basis?

Reverend **Falwell**. There is a terrific, terrific, terrific fear out there among pastors, churches, rabbis, priests, of Government entanglement in any way; and even to mention that publicly brings such an outcry from rank-and-file Christians, and particularly pastors. If you think the Israelis have a good lobby and the labor unions have a good lobby, you get those 400,000 churches, pastors, riled up, and I am dependent on contributions for our university from those people, so if you are asking me if I am going to pass an edict that 400,000 pastors and rabbis and priests send in a 990, no, sir, I am not.

Mr. **Thomas**. Thirty to forty thousand already do it voluntarily. The question I asked was are you willing to talk about it if their conscience allows them to do it voluntarily?

Reverend **Falwell**. I think carefully couched, it probably could be said without instant suicide.

Mr. **Thomas**. Okay. Thank you very much.

Chairman **Pickle**. Reverend Falwell, we thank you. Your testimony has been interesting and helpful, and we appreciate your coordination in establishing these hearings.

We do not have any legislation before us and did not hold the meeting for that purpose. It was a review, as you stated, and not an investigation.

We do want to keep in touch with you—or, to put it in your words, we will keep you on our mailing list.

Reverend **Falwell**. Thank you very much.

Chairman **Pickle**. Thank you very much.

The next witness will be Rev. Oral Roberts, and I understand he is coming into the room now, so we will wait just a minute.

We are running a little bit behind on time. I am going to ask the cooperation of the members now to speed up the hearing a bit, if we can.

Reverend Roberts, if you will have a seat there at the witness table. We are glad you are here, and thank you for volunteering to come and testify.

Rev. Oral Roberts has been televising his ministry for over 30 years. He began with the world's largest gospel tent and remains one of the most recognized television evangelists in the world.

We are pleased to have you here. Do you want to identify either the gentleman on your left, or would you dare identify the other gentleman?

STATEMENT OF REV. ORAL ROBERTS, ORAL ROBERTS EVANGELISTIC ASSOCIATION, ACCOMPANIED BY HON. JAMES R. JONES, LEGAL ADVISER (FORMER MEMBER OF CONGRESS)

Reverend **Roberts**. I think you know who this gentleman is, my associate from Tulsa.

Chairman **Pickle**. Yes, we know him well, and we admire him.

Reverend **Roberts**. Congressman Pickle and members of the committee, you have a copy of my written statement. I thought, if it is all right, I will just say a few words out of my heart, rather than read that, since you already have it, and save you time.

Chairman **Pickle**. That will be satisfactory, and we will include your entire statement for the record. So you may proceed.

Reverend **Roberts**. I thank you very much.

I think the great issue that we are facing in the work of the church is being brought on by the miracle of television.

When Christianity was first born or came into existence, there were no formal church buildings, what we call four-walled churches, not for the first 300 years. When Paul ended his ministry and gave his farewell message, he said, among other things, that he had gone from house-to-house. When you read the Book of Acts, which is the history given by Luke of the early Christian Church, we majored upon going house-to-house, and they did their ministries in small groups, mostly in private homes and in public squares, sometimes in amphitheaters. It was not for 300 years that there was what we call a four-walled church.

I was not in the church when I was converted. I grew up outside the church. My mother is of Indian descent, and the disease of the Indians is tuberculosis, and it settled upon my body at 17. I came to Christ in my home, flat on my back. Through the care of doctors and the healing prayers prayed over me, there was a miracle of restoration of my body, and my soul was converted, and I was called to preach. God told me I was to take his healing power to my generation.

Upon my study thereafter of the life of Christ, three great things stood out—he preached, he taught, and he healed. And the miraculous power of Christianity was what grabbed hold of my life and caught my attention and interested me that God is in the now. He is a good God.

And television has a way of bringing God into the now, into the home, where people hurt. I would say half the people of America go to church; maybe half do not, maybe more. Television has changed everything in our Nation.

I would say 6 or 7 years after I had begun from the pastorate and then the evangelistic crusade, we began to film from our big tent and to bring into people's homes all over America, Canada and other nations the healing power of God. We brought in a justice of a State supreme court, or a district judge, to sit on the platform, and I would raise my hand and attest that this was not staged. Some people were healed, some were not; some were converted, some were not; and that was filed in the county courthouse.

And across America, there came a new wave of hope to people like Oral Roberts, who had been outside the church. Although my father was a preacher, religion had not touched my life. I was flat on my back for 5 months, and no doubt I would have died because that was before the discovery of antibiotic drugs.

And now, television has focused a difference between what we call the four-walled church and the church where the people are. The church is not a building; when you pass by, you say there is a church. No—that is a church sanctuary. The church is people. It is the spirit of God working itself, the preaching, the teaching, and the healing.

The thing that was conspicuous by its absence in my life was the healing power. And out of my ministry has come a world-class university, with graduate schools, a graduate seminary, a medical school, all accredited. Out of it has come a great clinic and hospital and research center, in addition to our prayers for the sick, and medical missions. We have recently been able to break through in medical missions in Africa. This very month, we established our first medical mission station in Kenya where we combine the healing power of God in medicine and prayer.

In my own life today, I would like to testify that television may be the means of getting the gospel out, as we who are ordained in the church have never known it before. And I am just frankly honored being here. There are many questions that I think need addressing—not only accountability, but uniformity. Should everybody in the church or in a religious organization like ours file a 990, which we have done now for 39 years? Should there be some interpretation of what a church is? How can the IRS say this one is a church, this one is not?

I do not know exactly what the purpose of the committee is, except your letter to me. But I am here to cooperate and share with you whatever you have to ask me, and I hope I can be of service.

[The statement of Reverend Roberts follows:]

STATEMENT OF ORAL ROBERTS
ORAL ROBERTS EVANGELISTIC ASSOCIATION

TO THE HONORABLE J.J. PICKLE, CHAIRMAN
AND MEMBERS OF THE SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

Mr. Chairman and Distinguished Members of this Subcommittee:

My name is Oral Roberts. I am pleased to be here. With a name like Oral, you gentlemen can understand that I feel very much at home before a Congressional Committee.

Before I address the more serious business of the Committee, I thought a few observations about some of the problems and ideas we share would be appropriate before we get to matters on which there might be some good faith differences.

I do not like to start by complaining or by criticizing the media - some of my best friends are journalists - but what a few of the major media megaphones have done to me in recent weeks could add a full four pages to the Book of Job. "My strength, however, is as the strength of ten because my heart is pure." Please credit Tennyson with that remark. So I am prepared for more on-the-Job training in my visit with the Committee this morning. I know you will be fair. I will try to be responsive.

The worst of all distortions in recent weeks was the headline in a national news magazine that had me saying that God told me he would "kill me" if I didn't raise $8,000,000. I will get into that in more serious detail later on, but I am sure some of you gentlemen have had calls from your campaign managers warning that unless you raised x-million dollars by a day certain, you would be going home -- for good -- that your political life would be over -- that you would be dead. Now there is only one thing that is worse for a politician than being dead, and that is to be defeated in his political mission. The Lord, in a way, is my campaign manager and His message to me was not much different than the one you regularly receive from your own campaign headquarters. But more of this later on.

The media has also been poking fun at my belief in miracles and my participation, with the Lord's intervention, in the raising of the dead. Now mine is not the only profession that believes, and believes reverently, in miracles including the raising of the dead. Politicians are also miracle workers.

Sam Rayburn used to tell about the little Mexican boy who once came to Lyndon Johnson, crying bitterly, and said, "My father came back from the dead for one day and didn't say hello to me." LBJ said, "Oh no, son, your daddy couldn't have come back from the grave. Who told you he did?" "My mommy," said the boy. "She told me he came back on Tuesday and voted for you."

Politicians and preachers have another thing in common: we spend most of our time trying to enrich the lives of our flocks even if it means public controversy and personal danger. Why politicians should question activities on my part escapes me. There are procedural differences, of course. Politicians have the civil subpoena power, but the Lord has a divine subpoena which neither Congress nor Court can question or set aside. Its penalities are more dreadful than any that man can contrive. This should not be taken as a threat or warning, but simply a friendly piece of advice.

You raise funds and I raise funds. The big difference is that people give you money to get your message across, but people give me money to get His message across. If you fail, your opponent wins. If I fail, His opponent wins.

All right friends, the warm-up is over.
Now let me get serious.

I am honored to appear before you and respond to the issues and questions posed.

Despite my eagerness to cooperate with the Subcommittee in its investigation into television ministries and despite my agreement, in principle, with the goals and objectives of the Subcommittee, I accept the Subcommittee's invitation to testify with more than a little hesitation.

The Chairman himself noted in his letter to me that "our First Amendment religious rights and freedoms must be carefully maintained and protected." I agree and I am hopeful that these hearings will do just that. Yet, I approach these hearings with the concern that is as old as the Constitution itself; that is the concern for maintaining the separation of church and state and ensuring that Congress take no action whatsoever respecting an establishment of religion, or prohibiting the free exercise of religion. I acknowledge that this Subcommittee is not questioning or investigating religious beliefs or the sincerity with which those beliefs are held. Clearly, and I believe rightfully, this Subcommittee is concerned only about Federal tax laws and policies, the uniform application of the tax laws, and compliance with those laws. But as Chief Justice John Marshall said, "the power to tax is the power to destroy," and, thus, we are faced with maintaining a delicate balance between the First Amendment religious freedoms and the power of Congress to tax.

The maintenance of that balance not only gave rise to my serious reservations about appearing before the Subcommittee, but also led me to accept the invitation to appear. I have expressed my reservations so let me explain my reasons for accepting the invitation.

All religious and charitable organizations should be accountable for contributions raised from the public. Public interest dictates accountability by all such organizations. It is this public interest that convinced me to accept the Subcommittee's invitation. Given the great deal of public attention television ministries have received in the past few months, I welcome the opportunity to discuss the Oral Roberts Ministry in the hope that such a discussion will serve the interest of the public.

My call to the Ministry came at the age of seventeen when God's healing spirit cured me of tuberculosis. It was at that time that I devoted myself to God's service. I was ordained as a minister on August 14, 1937, and spent the next twelve or so years pastoring several churches and conducting crusades and evangelistic services.

In 1947, I was pastoring a small church in Enid, Oklahoma. Though it was filled with good hard working people who loved the Lord, I was dissatisfied: the New Testament was filled with accounts of the blind seeing, the mute talking, the deaf hearing, and the lame taking up their beds and walking. But in my church, nothing like that ever happened. In fact, the sick and afflicted seldom came to our church. And if they did, it would have taken a miracle for them to get up the stairs and through the doors. I heeded what I perceived to be divine directions and began preaching full time as an evangelist within the church.
But then something totally unexpected began to happen. As God began to bless my ministry, I started receiving letters form across America from people wanting my prayers. At first, I tried answering them by hand. But then the numbers increased to almost a 100 a week. So I appealed to my local pastor and asked him if he had anyone who could volunteer to type my letters. He sent out three young women who volunteered to work in my garage typing; one

of them is still on my staff. Soon, though, the mail reached proportions far beyond anything I could handle by myself, even with their help. Eventually, I incorporated and began to hire competent businessmen and managers to help with the work of a ministry that was growing by leaps and bounds.

In conjunction with this new direction in my ministry, we incorporated a not-for-profit Oklahoma corporation called Healing Water, Inc. on April 29, 1948. On July 21, 1949, Healing Waters, Inc. was recognized by the Internal Revenue Service as being exempt from federal taxation pursuant to what was then Section 101(6) of the Internal revenue Code of 1939 and what I understand is now Section 501(c)(3) of the Internal Revenue Code of 1954.

As we grew and expanded, I made a decision to begin writing to those who had written me to tell them about the steps we were taking in our ministry. I asked for their prayers and financial support. I created a magazine, published books and tracts. Then, in 1955, I was led to take a step that totally revolutionized my ministry: to film the crusades with their healing lines and show them on television. That had never been done before. But I insisted, and we hired a union film team from New York City and they flew to my crusade in Columbus, Ohio. There were cameras and cords and lines all over; bright lights were beaming; and everyone was nervous. But when the service was over and the program aired, the response was phenomenal. The numbers of partners supporting our ministry grew incredibly.

The name of the corporation was later changed to Oral Roberts Evangelistic Association (sometimes called OREA or the Association). On October 20, 1970, the Internal Revenue Service issued a letter ruling approving OREA's public charity status and indicating that OREA was excluded from Private Foundation status because it was a publicly supported organization.

OREA was formed for the purpose of spreading and communicating the Gospel of Jesus Christ, providing places for the worship of God, maintaining hospitals and educational institutions and reaching out to people throughout the world to comfort the ill and to heal their afflictions. These were and are the guiding purposes for which we conducted, and continue to conduct, our ministry. It is my sincere belief that we have remained true to these purposes. As a means of accomplishing these purposes, OREA formed other nonprofit, tax exempt organizations to achieve the goals OREA had set for itself.

In 1963, Oral Roberts University was chartered. ORU received its exemption from taxation under Section 501(c)(3) on January 30, 1964. Initially, ORU had only an Arts and Sciences school. As the popularity and reputation of the University grew, the University was able to add additional schools and, by 1971, ORU received its first full accreditation from the North Central Association of Colleges and Secondary Schools. In 1975, the Board of Regents decided to add several graduate schools to the curriculum including a school of theology and a school of medicine among others. Each of these graduate schools has been accredited by their respective accrediting agencies.

ORU opened with 312 freshmen from 45 states and 24 foreign countries. Today, the University has 4,600 students from every state and 54 countries. It confers degrees in 64 areas of academic study plus 9 professional areas of study. The estimated value of the land and buildings is over $500 million.

In the mid-1960's, the Ministry saw a need for a retirement and nursing home facility for the elderly. To meet this need, OREA formed University Village, Inc., another nonprofit, tax exempt corporation. University Village is a 460 unit retirement community which provides varying levels of care based on the particular needs of each resident. University Village has been very successful and answers, in a small way, the increasingly important question of how America will care for an aging population.

Health care in general is another stated purpose of OREA. To achieve this purpose, OREA undertook the City of Faith project in 1977. This project has proven to be the largest, costliest and, in some ways, the most important endeavor attempted by the Oral Roberts Ministry.

The City of Faith project involved the construction and establishment of a hospital, clinic, and research facility to be operated in conjunction with ORU's school of medicine. The guiding and principal purposes for this project were twofold: first, to provide health care to the whole patient by combining the healing "streams" of prayer and medicine; and, second, to educate and train healing teams to be sent to foreign countries as medical missionaries.

While the City of Faith project is only partially completed, it has been successful in meeting its goals including opening its first medical mission station in Kenya. The medical school has been fully accredited, the hospital operates 196 licensed beds, and healing teams are in the field in foreign countries. I am confident that the success of the City of Faith will continue and will grow.

As you can see, the Ministry, operating through OREA, ORU, University Village and City of Faith, has remained true to its original purposes. Each of these organizations performs tax exempt functions. For example, OREA operates to preach, teach, heal, and communicate the gospel of the Lord Jesus Christ and to conduct local church services, evangelistic crusades and other religious services. ORU maintains an educational institution educating the whole person and dedicated to preserving and promulgating historic biblical christianity. The medical school and City of Faith provide holistic health care to suffering people everywhere. As I have stated, these corporations are tax exempt and file informational 990 returns which are available to the public. To the best of my knowledge and belief, these organizations do not engage in any business activities which are unrelated to their exempt purposes.

In fact, it has been the policy of OREA to set up for-profit corporations to conduct all activities which might be construed to be trade or business. For example, OREA established Traco Advertising, Inc. to purchase radio and television air time at a reduced rate available only to advertising agencies. OREA also set up 8181 Management Co. to manage the physical plant and clinic facility. All of these affiliated corporations are taxable corporations; they file returns and pay tax.

All of the Ministry entities, either tax-exempt or for profit, undergo yearly independent audits by outside accounting firms. ORU uses a "Big Eight" accounting firm while OREA uses a large regional accounting firm. The other exempt Ministry organizations and the affiliated for-profit corporations use the same accounting firms as ORU and OREA. The yearly audits that these firms conduct is one of the ways that the Ministry ensures that funds are used for exempt purposes is through the corporate structure adopted by the Ministry organizations. The Bylaws of OREA, the Oklahoma law, vest all corporate authority in the Board of Trustees. There are twelve members of the OREA Board of

Trustees, only three of whom are related to me. ORU has a Board of Regents comprised of forty-one business and professional people, only two of whom are related to me. The various affiliated organizations also have separate Boards of Directors to whom has been delegated all corporate authority in compliance with Oklahoma law. These Boards have the legal responsibility to manage and control the respective Ministry organizations in addition to setting general policies and procedures. The policies and procedures adopted by each governing Board include accounting and record-keeping requirements which all employees must follow when spending the funds of the Ministry. These requirements result in multiple reviews of all expenditures at different levels of management. In turn, these reviews prevent any expenditures for nonexempt purposes. The board and I have always been keenly aware of and felt very strongly the burden of the responsibility. It is this very responsibility that I feel requires accountability by religious and charitable organizations. Yet, it appears to me that not all religious organizations are treated equally under the existing tax laws.

I have always thought of the Oral Roberts Ministry as a church. Our Ministry organizations perform all of the traditional functions of a church. We hold religious services on a regular basis, we perform marriages, baptisms, and funerals.

We educate and train ministers and perform all functions of any other church. It seems to me that our Ministry is a church in every sense of the word, yet the Internal Revenue Service says we are not a church.

According to the IRS, we are a "religious organization" under existing tax laws. Although I do not claim to understand the legal intricacies of how a religious organization and a church are different, I do know that the Oral Roberts organizations are required to file, and have always filed, yearly informational 990 returns. These reports disclose our contributions and expenses among other things, and they are available to anyone. Other churches are not required to file these reports and that, again, is something I do not understand. Certainly, I am not opposed to filing these reports, but I feel very strongly that these laws should be uniformly applied. If the Oral Roberts Ministry is required to file these reports, then should not the Catholics, the Mormons, the Baptists, the Methodists, and all other churches also be required to file these same reports? I am asking this committee that question. It seems to me that either our existing tax laws are not being uniformly applied to all churches such as ours or the tax laws should be changed to remedy this discrepancy. Should not all churches be treated equally under the law?

Organizations, whether religious or secular, which raise contributions from the public must be accountable. Some changes in the law to insure this accountability as well as uniform enforcement may be needed. Speaking for myself and all those involved in the Oral Roberts Ministry, we will cooperate with this distinguished Committee in whatever way we can.

Chairman PICKLE. Thank you, Reverend Roberts. That is very commendable of you and certainly stated in a very cooperative spirit. So we thank you, and we respect you as a great evangelist in this country who has done a great deal of good.

The purpose of our hearing today is to try to establish whether the tax laws being complied with and whether TV ministries are actually filing proper forms and accounting for any of the revenue. That is the purpose of the hearing.

In that connection, let me ask you one or two questions. I notice that you are not a member of the National Religious Broadcasters Association. Is that correct?

Reverend ROBERTS. That is absolutely correct.

Chairman PICKLE. Well, now, according to their code, they would require regular auditing of books and records. They would have a prohibition against certain transactions between members of the board and family members. They would disclose financial information to the public. Those are some of the main things that the NRB board has required. Why are you not a NRB member?

Reverend ROBERTS. Well, that is a good question. We have filed our 990s for 39 years; we have done our accounting. In many respects, we would go beyond what they have required in the past. And I do not think it is mandatory for anyone to belong to anything of that nature, though if that were beneficial, certainly, we have no qualms about doing that, sit.

Chairman PICKLE. But you feel you go beyond that, and therefore, it is not a necessity for you?

Reverend ROBERTS. We really do, because we have done it every year, and we have spent hundreds of thousands of dollars. That is one reason I raised the question. What you call a church does not have to file anything. We do. And because we have a university, a medical center, an evangelistic association, and a local church, where I am the pastor, it takes hundreds of thousands of dollars to do the extra work that the IRS requires. And we really do not know where we stand. And there are 10,000 independent local churches in this country, by estimate; they are not a part of denominations; some are in the country, some are in the cities, one on the campus of Oral Roberts University. They rent our Maybee Center, where we hold our basketball games, and they now have 7,000 members, and they are not a member of a denomination. They do not file a 990. And yet they were formed, actually by a graduate of ORU. So it is a hazy area here.

Chairman PICKLE. Well, then, you have no objection to filing the 990, or the 990–T, and you have done it for years and years?

Reverend ROBERTS. I have done it for 39 straight years.

Chairman PICKLE. All right. Now, I notice that you have many related organizations. Some of them are tax-exempts, and some of them are for-profit. How do you separate the funds?

I notice you have got a list of 8 or 10 or 12 different organizations. Some of them are tax-exempt and some of them are not. Now, how do people know; if you ask for a contribution and they send a check to Oral Roberts, where you put that money? How do you determine the allocation of it?

Reverend ROBERTS. That is a good question. In the first place, I do not receive the money. We have strong boards, a large number on the boards——

Chairman PICKLE. Well, when I say "you", I mean your organization, of course.

Reverend ROBERTS. Pardon me?

Chairman PICKLE. I do not mean you, personally, but your organization. How do you distribute that money?

Reverend ROBERTS. Well, let me start back on the number of nonprofit and profit organizations. The only two or three that are not nonprofit that I know of—one is TRACO, an advertising agency in the place of a public one that charges 15 percent for TV time, and we do that in-house, and that is a taxpaying entity. We have another one that escapes me right now; if you have it there, I would be glad to address it.

The exempt organizations that I know of are four: the Oral Roberts Evangelistic Association, which has 12 trustees; the Oral Roberts University, which has 41 on the board of regents; the City of Faith Medical and Research Center, which has three or four different boards by the nature of a medical center, and which is required by law; and the University Village, which is a retirement center, and has its own board. And I am only on two of those boards.

Chairman PICKLE. Well, now, I notice here you have some seven different related organizations.

Reverend ROBERTS. Okay.

Chairman PICKLE. They go all the way from the University to University Village, and the Oral Roberts Evangelistic Association, and so forth—as well as the City of Faith Hospital.

Reverend ROBERTS. Yes.

Chairman PICKLE. Did you ever transfer funds between tax-exempt organizations?

Reverend ROBERTS. No, sir.

Chairman PICKLE. How about between exempt and for profits, such as the City of Faith Hospital or the Oral Roberts Evangelistic Association, to a for-profit entity, such as your religious publication?

Reverend ROBERTS. Not that I know of. I do not believe that our accountants would allow that to be done. We have a Big 8 accounting firm, and have had all these years.

Chairman PICKLE. Well, we had a discussion earlier today about reasonable compensation. What do you consider to be reasonable compensation, in your case, or in some of the others we have had discussed today?

Reverend ROBERTS. Well, Congressman, if I were working in my ministry for money, they have not got enough money to hire me. I am worth a lot more, financially, for what I am paid.

I will be glad to tell you what I am paid, if you would like; it is not secret. But when you ask it in those terms, I really do not know. If you all know, and you could help us, I would gladly receive the help. If you would like to know mine, I would be glad to tell you.

Chairman PICKLE. Well, I think we know what yours is, according to your forms.

Reverend ROBERTS. Yes, sir.

Chairman PICKLE. I am just trying to arrive at some way to measure. We know that anyone should be able to get reasonable compensation for their work. Now, what is excessive? They said earlier today, they did not want to deal in dollar figure.

Reverend ROBERTS. Well, let us say that you are in the public, and you are quite in demand, and you write books, and you make a lot of money off those books. You could be worth any amount.

I give the earnings of my books to the ministry. My main pay is being President of Oral Roberts University. I am not paid for my television work.

Now, as for a pastor—we have pastors in Tulsa who earn as much money as I do; some do not. I say "earn"—that is not a good word. They are paid that.

Chairman PICKLE. Well, let me ask you——

Reverend ROBERTS. If I knew the question better, maybe I could answer better.

Chairman PICKLE. Well, I guess I am going to reword it in another way and not try to be personal, because I understand your salary is somewhere in the neighborhood of $80,000; Is that accurate?

Reverend ROBERTS. I am sorry?

Chairman PICKLE. I said that I understand that your salary is around $80,000.

Reverend ROBERTS. No, sir. I get $56,000 as president of Oral Roberts University, and I get $42,000 from the Oral Roberts Evangelistic Association. That is the work of evangelism and being pastor of our local church there. But my main salary is from the university. That would be a total of $98,000 rather than $80,000, sir.

Chairman PICKLE. Well, do you have compensation, or free amounts given to you for your travel expenses, for food, for clothing, for your home?

Reverend ROBERTS. If it is in connection with the ministry; and the university owns the home. They require me as the president to live on campus in this home. I am furnished a very nice home, and I have access to the motor pool on the campus. If I am traveling for the university, the Medical Center, or the Evangelistic Ministry, then my travel is paid; if it is personal, I pay it.

Chairman PICKLE. All right. Well, I thank you very much, Reverend Roberts.

Mr. Schulze?

Mr. SCHULZE. Thank you, Mr. Chairman.

Thank you, Reverend Roberts.

Let me confess that I do not have an awful lot of time to watch television. But I do remember there was quite a flap about you making a statement that if you did not get $8 million, you would die, or something like that.

Would you like to explain to the committee what that was all about?

Reverend ROBERTS. Yes, I would just be delighted, and thank you for bringing that up.

From the very beginning, I have had a healing ministry. In 1976, I went to the American Medical Association and asked for a charter for a medical school at ORU. They granted that charter on the basis of medical missions—it was not to be just another medical school, because we had enough of those in America—to send to the Third World and to the Indian reservations and to the inner cities, and where there was a scarcity, and to use that in connection with the healing ministry of Jesus. Jesus dealt with the soul, and he dealt with the body. And we saw a tremendous need.

There are 400 medical missionaries in the entire world. You have got to hear that, or the rest of it does not make sense. There are a half million medical doctors in the United States—900 in Tulsa, which has a half million people. In the Earth, there are 400 medical missionaries.

I have been in 46 nations for the gospel and never met one medical missionary. So the medical school was formed for that purpose.

However, because we charged a fee for the medical student, and then he had to borrow, when he graduated he owed so much money that we were finding ourselves in a position of being self-defeating. We did not have one, upon his graduation and his finishing of his residency, who went to the mission field.

So the Lord was dealing with me about it, and he gave me a year to turn the medical school around and to scholarship every medical student. And out-of-pocket, it costs us $45,000 a year to educate a medical student. Per year, we have 192, and that——

Mr. SCHULZE. Forty-five thousand dollars per student per year?

Reverend ROBERTS. Forty-five thousand dollars out-of-pocket is the cost.

Mr. SCHULZE. Oh, is that right? That is not including tuition?

Reverend ROBERTS. Well, at this time, the order I have from the Lord was to make no charges; to do as the military does, to give 100 percent scholarship, room and board, and for every year that he or she was scholarshiped, they would give a year to the medical mission field, and 4 years would be 4 years.

That cost $8 million a year. Well, for some reason, the media heard that and did not hear what else I was saying—that the Lord told me to turn the medical school around or, if I did not in 1 year, he was going to call me home, that he was through with what I was doing, and I had finished my work upon this Earth.

I carefully explained it in letters to my partners; they understood it. I carefully explained it on my television program; the congregation that I have on TV understood it.

For 9 months, I said it. Then I came to the last 3 months, and I had not gotten very far with it. And I suppose there was something in my spirit, something in my voice—in January, when I picked up the paper, the headline was $8 million. That is just what it cost. And from there it just went wild. And I called; I tried to correct it. We met with our board of regents, who had approved all of this.

And maybe you can handle the media, but the Oral Roberts ministry has not been able to handle any part of it. They can say what they want to say. And that is what the public heard. But they did not hear out of my mouth, as it was reported in the media.

Mr. SCHULZE. You did achieve your goal of raising the money, which will be used to support medical missionaries?

Reverend ROBERTS. Yes, sir. And I am happy to tell you that the first medical mission station opens this month in Kenya, Africa. I am happy to tell you that that money is in a special account, cannot be used for any other purpose. And I cannot tell you how grateful I am that the Lord let me help the medical missions and to take his healing power and let those people over there see, when we preach to the souls, our God is concerned about their bodies.

Mr. **Schulze**. So is it your view that the media, even by making fun of your statements——

Reverend **Roberts**. Oh, mocking.

Mr. **Schulze** [continuing]. Perhaps were the instrument by which the money was raised?

Reverend **Roberts**. Oh, I do not think that had anything to do with the raising of the money—and that is a personal opinion, because no one will ever know.

What they were saying is I said that God was going to kill me. I have preached God as a good God for 40 years. He is not killing people. But being called home is what it is all about. Death is a transition. I expect to be with the Lord. In fact, I am 69 young years, and if the Lord gives me any more time, fine; but if he does not, heaven is my home. I expect to meet the Lord. There was nothing morbid about it, to my people or to me. I am proud of it. I just praise God that we got it done.

Mr. **Schulze**. I see my time has expired.

Thank you, Reverend Roberts.

Chairman **Pickle**. Well, we are glad you were not called home, and now I am going to call on Mr. Anthony.

Mr. **Anthony**. And if I am called home, I hope it is 3900 Macomb Street, Washington, DC. [Laughter.]

Reverend Roberts, are you a member of NRB or ECFA?

Reverend **Roberts**. I am sorry, I am not hearing you well.

Mr. **Anthony**. Are you a member of the National Religious Broadcasters?

Reverend **Roberts**. No, sir.

Mr. **Anthony**. I was out of the room. If Mr. Pickle asked these questions, it is predicated upon a couple of other questions I want to ask.

What about the Evangelical Council for Financial Accountability?

Reverend **Roberts**. We were invited to be a member of that, several years ago, but we believed there was no teeth in it; and I think that has been proved by the PTL thing. Ours was so much stronger, sir; our auditing procedures and our filing of the 990 every year. We have a corps of auditors. One is a Big 8 firm, Coopers & Lybrand. It was so much stronger.

Mr. **Anthony**. And these are all made public? These are certified audits that are made public?

Reverend **Roberts**. Anybody in the United States can get a copy of our 990 report at any time, by writing the IRS; it is available to the media, to everybody in America.

It has been that way for all these years, sir.

Mr. **Anthony**. Reverend Roberts, you were out of the room, but there has been testimony from other witnesses that the industry itself acknowledges that there has been a loss of public confidence. Reverend Falwell just testified that although his ministry's overall gifts were up, he acknowledged that his gifts received from his TV ministry were down tremendously. And one advance text from another witness who will be following you says that his contributions are 25 percent down.

Other witnesses have testified that they acknowledge that there is a great deal of public scrutiny going on because of the various scandals, and they say that there have been organizations that have been meeting, and they are in the process of trying to tighten down the requirements. They even go so far as to say that we should not intervene, that it should be made voluntary, and if people like you do not join in the future, then leave it up to them to broadcast to the donors who belongs and who does not.

Do you subscribe to that philosophy?

Reverend ROBERTS. Well, I have not seen that. I was not invited to the meeting where they were organizing that. But if it would help, I am for anything that will give the people the confidence that they need, and it is appropriate in every way.

Mr. ANTHONY. Would that go so far as to support this committee if we made recommendations to the full committee on Ways and Means to tighten down the amount of information that is required under the 990?

Reverend ROBERTS. Well, I do not know how you could be tighter on me than you are now. Maybe there is a way. If you just pick up one of the 990s that we file and look at it—I do not know what else to do.

Mr. ANTHONY. You do, but there are a lot of others who do not file.

Reverend ROBERTS. I do not know. I would say this, that what we call the organized church or denominational church, and even a local independent church, as I understand it, does not have to file one. I do not understand why the law is not uniform, because we are a church as much as anybody is a church. Why wouldn't they want to file a 990—why? I do not know. I have no objection at all. In fact, if it will help, if there is a loss of confidence, let us do something about it.

Mr. ANTHONY. Thank you very much.

Chairman PICKLE. Mr. Thomas?

Mr. THOMAS. Thank you, Mr. Chairman.

Reverend Roberts, you indicated that you utilize the accounting firm of Coopers & Lybrand; is that correct?

Reverend ROBERTS. That is for the university and for the City of Faith, and Stanfield & O'Dell, a regional accounting firm, has handled the Oral Roberts Evangelistic Association since 1948.

Mr. THOMAS. Well, the reason I react with the name Coopers & Lybrand is because that is the firm that apparently Rev. Jerry Falwell uses.

Reverend ROBERTS. I did not know that.

Mr. THOMAS. Well, I guess my question is are there certain generally accepted accounting principles, or is anyone knowledgeable to respond to this with you, that are applicable to religious activities? Are there a few accounting firms that are used repeatedly, or is that simply a coincidence?

Reverend ROBERTS. Well, you are asking me a question I do not know, because—I am trying to understand what you are saying. You are saying Mr. Falwell has the same Big 8 firm that we do?

Mr. THOMAS. It happens to be the same accounting firm.

Reverend ROBERTS. That would have to be coincidence, because I do not know——

Mr. THOMAS. It would be coincidental, and I will ask someone else. There must be—once someone gains an expertise in handling documents in a certain area, it is natural that they would handle others.

Reverend ROBERTS. But the main reason we have them, they handle more universities and colleges than any in America. And I do not formally know Dr. Falwell, so——

Mr. THOMAS. That is fine. You indicated that in terms of your policies, whether or not you belong to any formal organization like the National Religious Broadcasters or whatever else, you voluntarily file a 990 form with the IRS; is that correct?

Reverend ROBERTS. I voluntarily what?

Mr. THOMAS. File a form 990.

Reverend ROBERTS. No, sir. We are required by law to file it. I did not know it was as privilege.

Mr. THOMAS. All aspects of your—so, you are not a church, then?

Reverend ROBERTS. Yes, sir, we are. We thought we were. It is a question—we started out in 1948 and were accepted as a nonprofit ministry by the IRS, and we began to file, and have done every year. About a year and a half ago, we filed with the IRS to be recognized as a church because we thought we were. And so far, their answer has been that we do not have a formal list of members. And from a theological point of view, we came back and said that if you are saved by Jesus Christ, we are all in the same group. The Quakers do not have a list; the Church of Christ does not have a formal list. And we are waiting on their answer, because we have qualified in every way to be a church. We preach, we teach, we heal, we marry the living, bury the dead; we offer holy communion 7 days a week; we have regular services.

Mr. THOMAS. You are currently, then, required to fill out the form 990, rather than on a voluntary basis.

Reverend ROBERTS. We are required under the way we were incorporated, sir.

Mr. THOMAS. You are not required to return donations from those who request them back; is that correct?

Reverend ROBERTS. Well, I do not think so.

Mr. THOMAS. Have you ever voluntarily returned donations from those who have requested them back?

Reverend ROBERTS. Why would I do that, when they gave it to the Lord's work? I am not trying to be facetious——

Mr. THOMAS. Well, that is my question—have you ever voluntarily returned donations from those who have requested their donations back—or, has anyone ever requested their donation back, in your memory?

Reverend ROBERTS. Well, I cannot recall. It would have to be small, or I would remember it. It would depend, it would depend——

Mr. THOMAS. To your knowledge, no one has ever requested a donation back?

Reverend ROBERTS. Well, it would depend upon, say, if I were a pastor and a person had given $100 to build a church, and you had built it; you had spent the $100. I do not know whether you could or not. It would depend upon the circumstances.

Mr. THOMAS. There has never been a discussion in any of your organizations or affiliated operations about what you do with a donation if someone requests it back, to your knowledge? This is a foreign area to you?

Reverend ROBERTS. We would have to learn—I am not trying to avoid it——

Mr. THOMAS. I understand. It is a question I am going to ask of others, because as we get into these voluntary compliance procedures, I think one of the questions that I am going to continue to ask is, is there any appropriate procedure for returning donations.

I know in the beginning of your testimony, you indicated a parallel between the religious and the political worlds to a degree. One of the things in the political world that we have to deal with are people requesting contributions back, and I wondered if that was similar in the religious world as well.

Reverend ROBERTS. Well, the people I deal with are just not that frame of mind. If I give the church an offering, or my tithe, you know, it just——

Mr. THOMAS. It is a one-way street.

Thank you very much.

Reverend ROBERTS. Yes.

Mr. ANTHONY [presiding] Mr. Flippo is recognized.

Mr. FLIPPO. Mr. Chairman, I have no questions.

Mr. ANTHONY. Mr. Flippo has no questions.

Mr. McGrath?

Mr. McGRATH. No questions.

Mr. ANTHONY. Mr. Dorgan.

Mr. DORGAN. Thank you, Mr. Chairman.

Reverend Roberts, you have heard part of the testimony given today. We want to welcome you to the committee.

I would like to ask a question of you that I have asked others. Some have said that they feel these hearings are inappropriate because they threaten religious freedom. How do you feel about coming to these hearings? Do you have a problem with these hearings?

Reverend ROBERTS. Well, I guess you want the bottom line with me. I am not used to running around in circles and trying to answer a question. I thought about requesting that I not appear. It seems to me like it is on the raw edge of the Constitution. But I am not built like that. I just do not run. I came up here because you asked me. And we prayed about it; we met with our board; we had nothing to hide. And I did not know exactly if you were going to discuss religion, because if we did, I was going to ask you can you define a "church".

I think the IRS has a real problem because they will say to one group you are a church, and to another group, you are not. I really think the Congress should address that.

I just decided, hey, we have got nothing to hide. I am not going to run. If these men want to see me, meet me—here I am. I do not know how to answer your question other than that.

Mr. DORGAN. I think you have answered it.

Let me ask a general question about the scandal that has been labelled such by the newspapers, the PTL scandal. I expect that you have been affected by that; I expect your revenues have been affected by the scandal that has been written about week after week after week, dealing with PTL.

Early on, as I recall, you were quoted as having provided general support to the PTL organization in the breaking of that story.

Can you tell us what is your impression of what went on there?

Reverend ROBERTS. Yes. I would be glad to——

Mr. DORGAN. How could it have been prevented?

Reverend ROBERTS. Yes. The first part of that, when it came to me, was whether you forgive a person for an act of adultery or not; and second, if he truly repented, could he be restored. At that time, we knew nothing about the financial part, about the million or so much a year for salary and other revelations. And we learned this through the media, by the way.

I personally met with Jim Bakker for the purpose of prayer, but without any knowledge of the financial part. That was not released at that time. And I was for the man, or myself, or you, or anybody, if he makes a mistake and he repents, that Christianity is all about forgiveness; and I stood up.

Now, later, when the other was released, then I made a statement, and I backed away 100 percent, because it is implied in our ordination that we do not enter the ministry to become personally rich. We have to live—we have a wife and children, and we have children to be educated, and so on—but that threw me. It just absolutely devastated me. So I apologized to the denomination, the Assemblies of God who took his ordination papers, because they had information, I repeat, I did not know, and another brother who was saying all this—but we have no proof of it; it was not even mentioned—now that is the sole part that I had in that.

Mr. DORGAN. I thank you for that answer. With respect to the financial information that has come out, the people who were subject to the solicitation for funds by PTL would not have known what the finances were or how they were used—is that right?

Reverend ROBERTS. Well, if they file a 990 like we do and have the accountants and the accuracy, there is no way that could have happened in my organization, so I do not understand it—how could it have happened?

You talk about several of us being affected; I think it has affected the whole body of Christ, all the churches. There has been, it seems to me, a loss of trust, and if this committee's meeting can help restore that by something we do, I am all for it. But I do not know how that could have happened, sir.

Mr. DORGAN. The ability to discover when someone begins to develop patterns of irresponsibility in the use of these funds would be helpful to everyone in your ministry, wouldn't it? All evangelists would be helped by avoiding these scandals. The way to avoid the scandals, perhaps, is to have mechanisms, whether they are your mechanisms or someone else's mechanisms, to give people the information to understand what is being done with this money.

Reverend ROBERTS. Well, I do not understand what kind of boards they had there. When you have strong boards, and you have boards that outnumber your family members, and they are not related to you, they do not work for you, you avoid that kind of trouble. It just devastates me.

But a second thought. There have been terrible things done in the churches, not just evangelists—I do not think we should pick on them. I am both a pastor and an evangelist. Sir, Christianity started off in a mess. The treasurer misappropriated the funds; his name was Judas. He not only betrayed Christ; he stole from Christ. I have asked myself, how did Christ not know that? I do not know how these things can get so screwy and so out-of-line.

Whatever is wrong, we have got to fix it. I do not tell you I have got all the answers, but something has got to be done.

Mr. DORGAN. Thank you, Reverend Roberts.

Chairman PICKLE. The Chair now recognizes Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman.

Reverend Roberts, you did not have to come here today, and we thank you for giving this Congress and committee the respect in showing. And I cannot tell you how good I feel that someone of your stature, with such an intimate working relationship with the Lord, would see fit to bring with you a former Member of Congress, Jim Jones, to be of assistance to you. It really has helped us with our self-esteem.

Reverend ROBERTS. Well, I am a Protestant, and he is a Catholic, but we are brothers; we are saved by the same Lord.

Mr. RANGEL. Well, it helps all of us to know that you are out there praying for all of us.

Tell me this. You operate a hospital and a medical school which is fully accredited, and at the same time you are involved in spiritual healing of those people who are sick, sore, lame and disabled.

Reverend ROBERTS. Yes, sir.

Mr. RANGEL. And I assume that this is a combination team; that when you get that broken body, that you start to work on it with all of your medical knowledge and the spiritual?

Reverend ROBERTS. Congressman Rangel, I was converted to Christ through the healing of my body by medical science and prayer. And later, when I read the Bible, in the Old Testament, God says, "I am the Lord that healeth thee." And I have never thought of healing and health apart from God. He heals through climate, he heals through diet, exercise; he heals through love, he heals through medicine, he heals through prayer.

It seems to me that God is a good God. He is concerned about the healing of the whole man, soul, mind, and body, finances, family. And so, from the very beginning I have held the dream, and while I am not a doctor, and I can only pray, that someday, the Lord would let me have a medical center and medical missionaries—and I feel like I have helped put it together.

Mr. RANGEL. Well, this is my dilemma—I am moved with you—but we in the Congress are going to try to attempt to help the doctors, where we have Medicaid and Medicare reimbursement—that is that we attempt to give some Federal assistance to help the doctors in their work. And I do not know whether we are overpaying these doctors where, in your hospitals, they may be being cured because of the spiritual healing. And I wonder whether your lawyers have really tried to differentiate how we should reimburse this health care.

Reverend **Roberts**. I am sorry I am not quite getting the question.

Mr. **Rangel**. Well, when someone goes to a hospital and they are discharged because they are cured, we normally charge that up to the medical services that have been rendered, and we pay the hospital, and we pay the doctor. And I assume we are doing the same thing with your hospital.

Now, if we find out that these doctors are just there, and that you people are healing these people who are sick——

Reverend **Roberts**. Well, the way ours operates is we have a prayer partner service that is not on a legal level of a doctor, but he is on a level with the doctor as far as his ministry is concerned.

Mr. **Rangel**. That is what I thought.

Reverend **Roberts**. And there is no charge for that ministry. And we believe that people are being cured medically, but they have a better chance of being healed if they take medicine and the power of prayer.

Mr. **Rangel**. How many of these people are trained with the healing powers in your hospital—just you, or others?

Reverend **Roberts**. Every doctor at the City of Faith is not only a born-again Christian; he is filled with the Holy Ghost, filled with the Holy Spirit; he is an expert as a medical scientist, but he also is a person of prayer. And I know of none that does not offer prayer that God will help him and that that patient will get well.

Mr. **Rangel**. I see. Well, the Federal Government is not charged with this healing power as relates to the spiritual healing power. In other words, we assume that your hospital applies some Medicare and Medicaid reimbursement for——

Reverend **Roberts**. You are not reimbursing our prayer partners and the part that our ministry pays for.

Mr. **Rangel**. That is just voluntarily given?

Reverend **Roberts**. I did not get that last part. Medicare is not reimbursing people who are healed—is that what you are saying?

Mr. **Rangel**. No. I am saying there is no charge for the spiritual healing that is done in your——

Reverend **Roberts**. Oh, goodness, no.

Last year alone, outside of that, we spent $2.5 million for the poor coming to the City of Faith. They did not have any money, and we just took them.

Mr. **Rangel**. Do you operate any healing teams without the doctors?

Reverend **Roberts**. Yes, sir.

Mr. **Rangel**. Where are they operated? That is outside the hospital?

Reverend **Roberts**. All over the world and all across this Nation. But thank God, since we have got the $8 million, we are opening the first medical mission station——

Mr. **Rangel**. I know about the medical. I am talking about the nonmedical spiritual healing.

Reverend **Roberts**. But with those three young doctors and the several nurses, our prayer partners, there is a team of about 20 that will be in this station in Kenya——

Mr. **Rangel**. Reverend, you got the $8 million for the medical doctors, but you do not need anything for the spiritual healing, do you?

Reverend **Roberts**. Oh, yes, the prayer partner has to be independent of the doctors because he is not a doctor.

Mr. **Rangel**. Well, did the Lord ask you to get any money for the spiritual healers, or just for the doctors?

Reverend **Roberts**. No, not at all, sir.

Mr. **Rangel**. So the $8 million were appropriated directly for the doctors, not the spiritual healers?

Reverend **Roberts**. That is for the scholarshipping of the medical students to become medical missionaries, once they finish their residency. It has nothing to do with the prayer partner service.

Mr. **Rangel**. My time is expired, but I hope you might share with us for the record how we can get more of your spiritual healers and therefore we can cut down on our Federal expenditures by cutting back on these doctors, because I can see why you needed $8 million for them; but if we can work a little more closely with you and with your spiritual healers, it might cause us to reduce this deficit.

Reverend **Roberts**. We would all like to be healed, yes, sir.

Mr. **Rangel**. We will work with you, Reverend. Thank you for your contribution.

Reverend **Roberts**. Amen. Thank you. God bless you.

Chairman **Pickle**. Reverend Roberts, by way of summary, you have been in the ministry now for many, many years, and you have filed each year 990s, and you have filed 990–Ts where there is revenue from an unrelated business involved. Is that correct?

Reverend **Roberts**. We file for the unrelated business?

Chairman **Pickle**. Yes. Do you file both the 990 and the 990–T? I understand that you do. Is that correct?

Reverend **Roberts**. As far as I know, yes. I did not know you could not. I really—you see, I as a person, I do not operate every part of the work——

Chairman **Pickle**. Reverend Roberts, if you do have a business or an unrelated income aspect to your operation, you do file a 990–T, and you file a 990 for general information purposes. Is that right, Mr. Jones?

Mr. **Jones**. I believe that is right. We will furnish for the committee any additional information the committee requires.

Chairman **Pickle**. All right. Now, you also said that when a check comes in, and it is addressed to Oral Roberts or Oral Roberts Evangelistic Association, and so forth, that you have a system where they can know that it can go to either one or seven or eight of your operations. There is a procedure that you use, not you individually, but the organization.

Reverend **Roberts**. Yes.

Chairman **Pickle**. I want you to submit to our committee how you handle it, so we will know that money raised for a hospital does not go to a group in South Africa, or vice versa, or to a religious group or a political group.

Reverend **Roberts**. We will be happy to do that.

Chairman **Pickle**. And you say there is no transfer of moneys from a (c)(4) over to a (c)(3).

Reverend **Roberts**. Absolutely.

Chairman **Pickle**. There has been none of that.

Reverend **Roberts**. Not as far as I know.

Chairman **Pickle**. I wish you would make that clear to us, so we will have it as a matter of record.

Reverend **Roberts**. We will file that with you.

[The following was subsequently received:]

Dickstein, Shapiro & Morin,
Washington, DC, October 26, 1987.

Hon. J.J. Pickle,
Chairman, Oversight Committee,
Longworth Building, Washington, DC.

Dear Mr. Chairman: * * * [Y]ou asked that we furnish for the record how transfers are made between 501 (c)(3) and (c) (4) entities within the Oral Roberts' organization or between those entities and any political arm of the Oral Roberts' operations.

Since there are no political operations or 501 (c)(4) entities attached to Oral Roberts' operations, there are no such transfers. Insofar as distribution of contributions to Oral Roberts, they are distributed directly to the appropriate organization if the contribution so identifies and it is reported on that entity's 990. Where the contributor does not specify which tax exempt entity is to receive the donation, the Oral Roberts' Association receives, distributes and reports it on the 990.

I hope that this is responsive to your questions. Thank you again for the many courtesies extended to Oral Roberts and to me. If we can be of further assistance, please don't hesitate to let me know.

Best wishes.

Sincerely,

James R. Jones.

Chairman **Pickle**. That was the purpose of the hearing. The reason I wanted to summarize it was simply to point out again is that all we want to know is are you, as Oral Roberts Enterprises Association, et cetera, complying with the Federal Tax Code. And I assume that you say that you are——

Reverend **Roberts**. Yes, sir.

Chairman **Pickle** [continuing]. —That you have not been harassed by the Internal Revenue Services, and that you are going to continue to operate, and that it is not a bother to you, that is, you comply with the law.

Reverend **Roberts**. All I would like for them to do is recognize us as a local church—and that the law be uniform—uniform. That is my only——

Chairman **Pickle**. Well, I thank you very much.

Mr. Jones, do you wish to add anything to this committee that you used to be so prominently involved with?

Mr. **Jones**. No, Mr. Chairman. I am delighted to see the committee again, and if the committee wishes any additional information, we would be happy to comply and cooperate.

Reverend Roberts has been most cooperative with this committee, as you know, and if the hearing record is open, and we feel there is something that needs to be added, we would be delighted to try to do that.

Chairman **Pickle**. Are you Mr. Roberts' legal adviser or some other kind of adviser?

Mr. **Jones**. Well, as you know, Reverend Roberts was a constituent of mine for 14 years, and one of the most prominent people in our district, and a friend; and in this particular capacity, I would be both friend and legal adviser.

Chairman PICKLE. Well, we thank you very much for coming.

Mr. Rangel?

Mr. RANGEL. Mr. Chairman, could I congratulate Jim Jones, because very seldom do we see a Member leave the Congress and reach such a high position outside of your political responsibilities. And I do hope that you feel free to share with me any revelations that you may have from time to time as relates to some of the ticklish problems that we are wrestling with here in the Congress.

Mr. JONES. As the distinguished gentleman from New York would say, "It makes a lot of sense to me."

Chairman PICKLE. Thank you very much.

Reverend ROBERTS. Yes, sir.

Chairman PICKLE. Now the Chair would ask the Reverend Larry Jones to please come to the witness table.

Reverend Jones is the founder and the President of Larry Jones International Ministries of Oklahoma City, Okla., and the founder and president of Feed the Children.

We are pleased that you could be with us, Reverend Jones, and ask you to proceed.

STATEMENT OF REV. LARRY JONES, PRESIDENT AND FOUNDER, LARRY JONES INTERNATIONAL MINISTRIES, INC., AND FEED THE CHILDREN

Reverend JONES. Thank you very much.

I would like to say that I have been here since early this morning; I have heard all the testimony, and I know that there are many people who are going to come after I get through, so I have cut in half my remarks this afternoon. I know you have my statement that goes on record.

The ministry that we have is just a little bit different, and so I want to take about 5 minutes because I think it is going to be helpful to your testimony. One of the things that I feel before this is over is that you and I and all these Congressmen, we are really in this together, and I want to talk about that in a few moments.

Chairman PICKLE. All right. You are certainly welcome to proceed.

Reverend JONES. We want to thank you for inviting us here. My name is Larry Jones, and I am founder of the Larry Jones International Ministries, a television ministry headquartered in Oklahoma City.

I began our television ministry in 1972, and then in 1979 created Feed the Children as a division of Larry Jones International Ministry, an international hunger relief organization.

One of the things that I want you gentlemen to know is my heartbeat, and I can share that in a very short story.

In 1979 I went to Haiti along with 13 other preachers to preach for a week. I came in one night about 9 o'clock, and as I got out of the taxicab, a little boy came up to me and asked me if I had a nickel. And I said, "Yes, I do. What do you want with it?"

He said, "I have not had anything to eat all day. And if you will just give me a nickel, I will go to that store over there, and I will buy a roll."

I gave him a nickel, but he did not leave.

He said, "Do you have three pennies?"

And I said, "Certainly. What do you want with the three pennies?"

He said, "If you would give me the three pennies, I will cut the roll in half and go over and have butter put on each side of that roll." So I gave him three pennies.

Then, he took off running as he thanked me, and I said, "Come back. How much is a Coke?"

He said, "12 cents."

So I gave him 12 cents, altogether 20 cents. And when I went in the motel, the scripture came to me: "When you have done it unto one of the least of these my brothers, you have done it unto me."

And I realized in essence that I had fed Christ.

So when I came back to the United States, I discovered that President Carter had embargoed wheat against the Russians because of their invasion against Afghanistan. I got on television, realizing we had 30 million tons of excess wheat, and I said, "I think we should take this surplus, and we should feed hungry children in Haiti, which is only 600 miles away."

Since that time, we have shipped food to 27 different countries, and in the last year, we have been in 42 different States in the continental United States, taking in food. The gifts in-kind that we received last year were $22 million. However, since the PTL scandal took place last March, and then in April, our giving is off 25 percent.

The solicitation and subsequent distribution of these funds and commodities is a tremendous opportunity and responsibility that we at Feed the Children take very seriously. For this reason, we are excited to have this opportunity to share the financial outreach and administration of our organization.

As with most television ministries, we solicit funds over the airwaves to finance a significant portion of the Feed the Children relief activities which I have just described. We at Feed the Children firmly believe that television, used to reach those able to give, to inform them of the needs of those less fortunate, is a wonderful vehicle, simply not available through a single pulpit.

I fully agree with the members of this subcommittee that the abuses of the public trust must be exposed and must cease; but I sincerely hope that forums such as this might also expose those whose work is worthy of public trust, so that their positive outreach may continue.

It is for this reason that I appreciate the opportunity to discuss the financial safeguards and accountability we strive to exercise.

Your letter of invitation asks that specific issues be addressed. Therefore, I submit the following.

The Larry Jones International Ministries is, according to the Internal Revenue Code of 1954, as amended, and the rules and regulations thereunder, a 501(c)(3) organization, and we have been so registered since 1966.

The Larry Jones International Ministries, Inc., is required to file an annual information return, form 990, with the Internal Revenue Service. We also make financial reports available to the public and our audited financial reports are available for inspection.

Our most recent independent audit was conducted this year by the Big 8 international accounting firm of Coopers & Lybrand. The report shows that 89 percent of our funds went to projects and ministry services, and the balance to administration and to fundraising.

The activities in which our television ministry is engaged are threefold. We are an evangelistic organization concerned with the preaching of the Gospel of Christ. We are involved through Feed the Children in distributing food to the hungry. And we are also involved in a ministry to a national tragedy, the American farmer.

None of these activities are unrelated business activities, and each is included in our report to the IRS. The ministry conducts no for-profit activities.

The procedures which ensure that tax-deductible contributions are used exclusively for exempt and not private purposes include the following practices: Our internal control procedures and our accountability to our board of directors; our independent certified public accountant; our independent outside auditors, and our conformance with the guidelines of the National Religious Broadcasters Association. In addition, we cooperate fully with the Better Business Bureau.

Right now, as I stated a moment ago, we are distributing food to 42 States; our trucks are taking food to 113 different distribution points to supply over 1,100 feeding centers. And we are only touching the tip of the iceberg. Last month, over the Labor Day weekend, we gave away 1 million pounds of food, not in Ethiopia, not in Mexico, but in Washington, D.C., with over 820 churches in this area participating. And you will see why that is important in just a moment.

Assisting America's needy should be the mission of all television ministries. Frankly, those ministries serving this purpose should be receiving some of the exposure now being focused on the abusers. Sure, it is wrong to commit adultery; but it is also wrong to let little babies go to bed hungry. And one-half million American children suffer from malnutrition, and that includes one out of two nonwhite children.

God forgave an adulterer, but he did not forgive the rich man who tore down his barns to build bigger barns. God has a storage site for our surplus grains—the stomachs of starving children. God has a solution for our excess food—the shrunken bellies of the hungry in America.

Now, do not think that I do not know the bureaucratic and political responses to this. I have travelled up and down these halls and heard our political leaders' answers. As I said to the House Select Committee on Hunger last summer, our farm policy is so out-of-touch with reality that they have convinced you and the rest of the Nation that it would be wrong to devise a policy that would take our surplus and feed the hungry. It would be wrong somehow to take our surplus and ensure that no child in the United States of

America ever went to bed hungry, or that it would somehow be wrong to create a market for the American farmer.

Now, perhaps you are wondering what all this has to do with this hearing. As a minister, my mandate is that of Christ—to minister to the needy. And frankly, along with the recent events within the television ministry community, my biggest hindrance to accomplishing this mission is the Government's deaf ear to the cries of the hungry. I have great respect for the institution of the Presidency and for our President, Ronald Reagan. However, if the President's aides are not telling him what is going on in the basement of the White House, how can we expect him to know what is going on in Nebraska or Kansas or Iowa?

There are hungry and homeless people sleeping on the grates right outside the White House. And while Presidential candidates make children a political ping-pong ball, those same children are going hungry, and their little empty stomachs cannot wait until 1988.

But I firmly believe that we cannot expect Government to provide all the funds, and we sure know the Government does not have all the right answers.

Again, I state, the church and the practice of televangelism should be taking a significant role in reaching and helping the masses. But I will tell you one thing. Televangelism needs to get its own house in order. Rome is burning. People are suffering. But some in the television community are spending valuable time and resources igniting each others' houses.

When I visit with ministers and members of churches, synagogues, and temples, I do not say build another building or another gymnasium. Rather: Buy a few truckloads of surplus grain. Feed the hungry. Just think there are 339,000 churches, temples, and synagogues in America. If each one averaged purchasing four truckloads of surplus grain per year to feed the hungry, which is only 1 load a quarter, that would be more than 1 billion bushels of grain. Farm prices would be protected, because the church would pay market prices. Government would be helped because we would not be spending $9.6 million a day to store over 13 billion bushels of surplus grain. Also, the hungry would be fed.

In my plan, it is a triple winner. The Government wins, the farmer wins, and the hungry win.

Now, I know my plan is simple, but I like what Ralph Waldo Emerson said: "Society is always shocked at a sudden burst of common sense."

The best thing about this hearing is not that new laws might be passed—in fact, we have adequate laws, and the recent abuses are being pursued by appropriate Government agencies.

Rather, the best thing is that this hearing might expose the good as well as the bad aspects of television ministries. It is providing an opportunity for ministries like ours to stand openly, under questioning and examination.

Our work is the work of the Good Samaritan. And in these dark days, we need this exposure to get our positive message across. And hopefully, one day, politicians and preachers can stop smirking at each other and begin an honorable partnership for the good of our fellow citizens in need.

This truly should be our joint mission and our joint responsibility.

In closing, I personally believe that every ministry should be accountable to its contributors. I support the contention that donors should be able to determine how much money has been raised and how it is spent. I support the premise that it should be easy to learn what the salaries are of those in charge. And I support the principle that the proof of expenditures by an independent auditing agency should be available upon request.

Now, may I say it was not a good Democrat or a good Republican, not a good Baptist or a good Catholic, but the Good Samaritan, who stopped on his journey and crawled into a ditch to help a person in need. Even though we will have to crawl over 13 billion bushels of surplus grain, it is time that we rolled up our sleeves, we get into the ditch where there are 20 million hungry Americans and 600,000 family farmers who have lost their lands. We must create a new passion for the possible.

We can solve our problems if we work together. When Washington makes mistakes, we the American public, we forgive you. When we ministers stumble, show us the same mercy, because the events of the recent past have not solved any of our pressing problems. They have only caused us to focus more on the problem instead of the solution.

America has enough problems. She needs a solution: Good Samaritans and good Americans.

I want to thank you, Congressman Pickle, and members of this subcommittee. I appreciate your concern and interest, and I pray that you will be guided by God in all your deliberations.

Thank you.

[The statement of Reverend Jones follows:]

STATEMENT TO

COMMITTEE ON WAYS AND MEANS

REVEREND LARRY JONES

Larry Jones, Founder and President
Larry Jones International Ministries, Inc.
Feed The Children
P. O. Box 36
Oklahoma City, OK 73101
(405) 942-0228

Thank you, Congressman Pickle, and distinguished members of the Subcommittee on Oversight, for your invitation to appear at this hearing to address the issues of Federal tax policy, tax administration, and compliance with our Federal tax laws.

My name is Larry Jones and I am the founder of the Larry Jones International Ministries, Inc. - a television ministry headquartered in Oklahoma City, Oklahoma. I began our television ministry in 1972 and, in 1979, founded its sister organization, Feed The Children, an international hunger relief organization. Our television program each week profiles the activities and outreach of Feed The Children and I would like to take just a moment to describe its beginnings.

In 1978 a friend asked me if I would help to send an X-ray machine to a missionary couple running a small clinic in Haiti. The shipping bill was $4,000. My weekly television program was then only seen on nine stations, but I asked my viewers if they would each send in a dollar for this purpose. The funds came in and the machine was shipped. A few months later I was conducting a crusade in Wellington, Texas, and having dinner in the home of my longtime friend and supporter, Dan Langford, a local farmer. In the process he mentioned that the market was so bad that he was going to turn under 50 acres of black-eyed peas as soon as the crusade was over.

I mentioned the stories I had heard about the desperate plight of the hungry in Haiti. His immediate response was if I could arrange for shipping the peas, then he would harvest, clean and bag them. I went back on television and asked the people who had given a dollar for the X-ray machine if they would send another dollar to ship the black-eyed peas. The response was tremendous and we were able to ship the peas which fed thousands in Haiti.

During this time, several pastors invited me to come to Haiti for a crusade. I was still thinking of myself as a traditional evangelist, preaching on television and holding crusades. But the hunger I saw in Haiti shook me to my feet. Then as I was flying home, I read in the newspaper where President Carter had embargoed 30 million tons of wheat. As an evangelist who had conducted crusades in farming communities across America, I knew what that meant: more government surplus in elevators already full to overflowing. And yet, 600 miles off our coast, children were starving to death.

On the next leg of my trip, I began to read the New Testament. It was like blinders had been removed from my eyes. On every page of the Gospel, Jesus kept emphasizing that our task was to feed the hungry, clothe the naked and care for the widow, the orphan, the fatherless, the stranger and the hurting.

When I went on the air to preach again, I discovered the old themes wouldn't work. I told farmers if Carter was going to destroy the wheat market, let's give the wheat to the hungry. The phone began to ring off the wall. I asked those who weren't farmers to give money to help get the wheat cleaned and bagged, trucked and shipped. The response was tremendous; not only did we receive money, but a retiring dentist gave his entire office of equipment, pharmaceutical companies gave us medicine and vitamins, clothing companies gave jeans, and shoe companies gave shoes.

What started with this project in Haiti has continued throughout the years under the auspices of our Feed The Children organization. Feed The Children has distributed millions of pounds of food in places as far away as Africa and Southeast Asia and in more than 40 states. We've built wells with the help of the Oak Ridge Boys. We've supported orphans in Haiti and faraway Dagaretti, Kenya. We've sent medical teams numbering up to 55 into Mexico, Central America, and Africa. Our supporters have gone with us to Ethiopia and the Philippines, and even to Nicaragua and El Salvador. Last year, gifts in kind were given to us by Americans who heard our message on television and were valued at $22 million.

The solicitation and subsequent distribution of these funds and commodities is a tremendous opportunity and responsibility we take very seriously. For this reason, we are excited to have this opportunity to share the financial outreach and administration of our organization.

As with most television ministries, we solicit over the airwaves to finance a significant portion of the Feed The Children relief activities I have just described. We at Feed The Children firmly believe that television, used to reach those able to give, to inform them of the needs of those less fortunate, is a wonderful vehicle simply not available through a single pulpit. I fully agree with the members of this Subcommittee that the abuses of the public trust must be exposed and must cease, but I sincerely hope that forums such as this might also expose those whose work is worthy of the public trust so their positive outreach may continue.

In that regard, recent public skepticism of television ministries has resulted in a 25 percent decrease in our fundraising. This financial loss has meant cutbacks of our television outreach and staff. More importantly, the decrease in funds is restricting our resources for assisting the truly needy.

It is for this reason I appreciate the opportunity to discuss the financial safeguards and accountability we strive to exercise.

Your letter of invitation asked that specific issues be addressed. Therefore, I submit the following:

1. The Larry Jones International Ministries, Inc. is, according to the Internal Revenue Code of 1954, as amended and the rules and regulations thereunder a 501(c)3 organization; and we have been so registered since 1966.

2. The Larry Jones International Ministries, Inc. is required to file annual information returns (Form 990) with the Internal Revenue Service. We also make financial reports available to the public and our audited financial reports are available for inspection. Our most recent independent audit was conducted this year by the Big Eight international accounting firm of Coopers and Lybrand. The report shows that eighty-nine percent (89%) of our funds went to projects and capital expenditures and the balance to administration and fundraising. That audit was given to our governing board and is available to the public upon request.

3. The activities in which our television ministry is engaged are threefold: (a) We are an evangelistic organization concerned with the preaching of the Gospel of Jesus Christ. Our concern is to win converts to Christ through literature, television, books, magazines, and preaching crusades. (b) We are now involved through Feed The Children in distributing food to the hungry, especially children, in America and overseas. And (c) we are involved in ministry to a national tragedy, the American farmer. None of these activities are unrelated business activities and each is included in our report to the IRS. The ministry conducts no "for profit" activities.

4. The procedures which ensure that tax-deductible contributions are used exclusively for exempt, and not private, purposes include the above practices, our internal control procedures and our accountability to our board of directors, our independent certified public accountant, our independent outside auditors, and our conformance with the guidelines of the National Religious Broadcasters Association. In addition, we cooperate fully with the Better Business Bureau.

Having responded specifically to the questions, I think it is also appropriate to address the underlying issue relative to this meeting. We're here and these hearing are being conducted because some in television ministries failed to regulate adequately their own house. It's unfortunate but true that most times when the government intervenes in problem areas, it's because we citizens did not take care of our own business. We in the community of televangelists must be more publicly accountable.

It is not a new revelation that this meeting was triggered by the mutiple events which began last January with the revelation by the media of a fundraising letter by Oral Roberts, which most persons interpreted to say that if he did not receive $8 million by the end of March, 1987, God could very possibly end his life. As if that didn't create enough attention, immediately following that were the revelations about the Reverend Jim Bakker's questionable personal conduct, the alleged misuse of ministry funds for private purposes, and his subsequent resignation from the PTL television ministry.

To deny that those events provide a backdrop to this meeting, and in fact are the impetus for it, is as indefensible as to deny that the income of the ministries in which I am involved has not suffered because of them. As I stated previously, our fundraising has dropped an alarming 25 percent.

I am not interested in jumping on the bandwagon to berate Oral Roberts or Jim Bakker. The television evangelism of today is a beneficiary of the pioneering efforts of Dr. Roberts. I, and every other media ministry, owe a deep dept to him for the uncharted paths he explored in the use of the media for evangelistic purposes, especially the mail and television. I continue to pray for his ministry and the vision which he has. And let me also affirm my sympathy for and appreciation of Jim Bakker. I appeared on his show, he aired our programs, and was always generous to the extreme. I hurt for him and his wife and I have personally remembered them in prayer. Nonetheless, the incidents involving the Roberts' and Bakker' ministries have harmed others in the television ministry community. And because of this, we are less able to help those seeking our assistance.

Allow me to take a moment to share some examples of Americans who have recently reached out to us through our television ministry.

Three weeks ago my wife Frances and I spent two days in the home of Mrs. Art Kirt, a farm widow in Grand Island, Nebraska. Her husband, the late Art Kirt, a 49-year-old farmer, owed a $300,000 farming loan to the local bank which he couldn't pay. Distraught and about to lose his farm, he was killed in a conflict with law enforcement agents. That is the kind of frustration created when you work as hard as farmers have to work, and when the harvest is finished, have less to show for it than what it cost to produce it, much less pay the notes down at the bank.

I sat on the front porch with Eugene Copeland at his farm in Chattanooga, Oklahoma, and listened as he described with tears in his eyes the pain his wife experienced as they faced losing the farm that had been in her family for five generations. She subsequently ended her life.

In Temple, Texas, a black farmer's loan payments to the Farmers Home Administration were applied to new notes instead of his old notes and interest. The result? He lost his farm and now a county official owns it.

These are the needy people we have been able to find through our television ministry. While we are still able to reach out to them spiritually, we are much less able to do so financially.

And yet, according to the Harvard Physicians Task Force, there are 20 million Americans who are hungry. But I don't have to rely on a Task Force to know about hunger. Last September 8 - hardly a month ago - in one day we gave away more than one million pounds of food to the hungry, not in Ethiopia or Mexico, but right here in this city of Washington, D.C.

Right now we are distributing food in 42 states; our trucks are taking food to 113 different distribution points to supply 1,100 feeding centers. And we're only touching the tip of the iceberg.

Assisting America's needy should be the mission of all television ministries. Frankly, those television ministries serving this purpose should be receiving some of the exposure now being focused on the abusers. Sure, it's wrong to commit adultery, but it's also wrong to let little babies go to bed hungry and one half-million American children suffer from malnutrition. God forgave an adulterer, but He did not forgive the rich man who tore down his barns to build bigger barns. God has a storage site for our surplus grains - the stomachs of starving children. God has a solution for our excess food - the shrunken bellies of the hungry in America and around the world.

Now don't think that I don't know the bureaucratic and political responses to this. I've traveled up and down these halls and heard our political leaders' answers. As I said to the House Select Committee on Hunger last June, "Our farm policy is so out of touch with reality that they've convinced you and the rest of the nation that it would be wrong to devise a policy that would take our surplus and feed the hungry; it would be wrong somehow to use our surplus to ensure that no child went to bed hungry; or that it would somehow be wrong to create a market for the American farmer."

Perhaps you're wondering what all this has to do with this hearing. As a minister, my mandate is that of Jesus: to minister to the needy. And, frankly, along with the recent events within the television ministry community, my biggest hindrance to accomplishing this mission is the government's deaf ear to the cries of the hungry. I have great respect for the institution of the presidency and for President Ronald Reagan. However, if the President's aides are not telling him what's going on in the basement of the White House, how can we expect him to know what's going on in Nebraska? There are hungry and homeless people sleeping on the grates right outside the White House. And, while presidential candidates make children a political ping pong ball, those same children are going hungry; their empty stomachs won't wait until 1988.

But I firmly believe that we cannot expect the government to provide all the funds and we sure know the government does not have all the right answers. Again I state, the Church and the practice of televangelism should be taking a significant role in reaching and helping the masses. But I'll tell you one thing: televangelism needs to get its own house in order. Rome is burning and people are suffering; but some in the televangelism community are spending valuable time and resources igniting each other's houses.

When I visit with ministers and members of churches, synagogues or temples, I don't say, build another building or gymnasium; rather, buy a few truckloads of surplus grain and give it away. Just think, there are 339,000 churches, synagogues and temples in America. If each one averaged purchasing only four truckloads of surplus grain per year to feed the hungry - that is one load a quarter - that would be more than a billion bushels of grain. Farm prices would be protected because the churches would pay market prices.

Hopefully, this hearing will focus attention on not just the abuses, but on these opportunities as well.

The best thing about this hearing is not the laws that might be passed; rather, it's the fact that this hearing might expose the good as well as the bad aspects of television ministries. It's providing an opportunity for ministries like ours to stand proudly under questioning and examination. Our work is the work of the Good Samaritan, and in these dark days, we need this exposure to get our positive message across. And, hopefully, one day politicians and preachers can stop smirking at each other and begin an honorable partnership for the good of our fellow citizens in need. This truly should be our joint mission and our joint responsibility.

In closing, I personally believe that every ministry should be accountable to its contributors. I support the contention that donors should be able to determine how much money has been raised and how it was spent. I support the premise that it should be easy to learn what the salaries of those in charge are. And I support the principle that the proof of expenditures by an independent auditing agency should be available upon request.

May I say that it was not a good Democrat or Republican, not a good Baptist or Catholic, but the Good Samaritan who stopped on his journey and crawled into the ditch to help a person in need. Even though we will have to crawl over 13 billion bushels of surplus grain, it's time that we rolled up our sleeves and got into the ditch where there are 20 million hungry Americans and 600,000 family farmers who have lost their lands.

When Washington makes mistakes, we the American public forgive. When we ministers stumble, show us the same mercy, because the events of the recent past have not solved any of our pressing problems; they've only caused us to focus more on the problem instead of the solution. America has enough problems; she needs a solution: Good Samaritans and Good Americans.

Thank you, again, Congressman Pickle, and members of the Subcommittee. I appreciate your concern and interest and I pray that you will be guided by God in your deliberations.

Chairman PICKLE. Thank you, Reverend Jones.

Now let me ask you a few facts so I can understand better what you are doing. How much does your ministry receive in tax-deductible contributions on an annual basis?

Reverend JONES. We received last year, I think it was $13 million in actual dollars. And I am talking about 1986 now, because our fiscal year closes September 30. And then we received about $17 million in what we call or term "gifts in kind"

Chairman PICKLE. All right. You received the $13 million. And with that money, you buy grain and wheat as I understand it.

Reverend JONES. I think you have to understand how we operate. We have nine field men. And the food that we brought to Washington, D.C., farmers in Kansas donated wheat flour. We had it milled in Kansas and brought here in 10-pound bags.

Chairman PICKLE. All right. So you brought the milled wheat.

Reverend JONES. The wheat. And then the corn meal came out of Colorado.

Chairman PICKLE. And that is true all over, wherever you go. Do you have your own truck lines?

Reverend JONES. We have our own trucks, yes, sir.

Chairman PICKLE. Do you rent them out for other purposes, or are they used exclusively for your purposes?

Reverend JONES. My attorney is here at this time, and right now, what we attempt to do is we take our trucks, and we send our trucks out, and then we try to backhaul, because it would be totally impossible to pay for that—sending the truck home empty.

Chairman PICKLE. Well, do you have any unrelated business income tax aspect in your operation?

Reverend JONES. Not that I know of, no, sir.

Chairman PICKLE. But you do file the 990?

Reverend JONES. Yes, sir, we do.

Chairman PICKLE. And how long have you been in operation?

Reverend JONES. We have been in operation since 1966.

Chairman PICKLE. And it has been primarily, almost exclusively, in the distribution of food?

Reverend JONES. No, sir. That was begun in 1979.

Chairman PICKLE. In 1979. Is that what you do now, largely the distribution of food?

Reverend JONES. Yes, sir, largely in the United States, as well as overseas.

Chairman PICKLE. Is it administered through churches for children, primarily, or for anyone?

Reverend JONES. What we try to do is be what you would call or term a "pipeline" to feeding centers, to food banks, to soup kitchens.

Chairman PICKLE. The wheat that you get, is it donated by the farmers?

Reverend JONES. Some of it is donated, yes, and then of course, some of it we do purchase, yes.

Chairman PICKLE. Well, there has been an article recently in the Washington Post, and it was very complimentary to you and to your operation, stating you are one of the good guys. We will want to know more about your operation. It sounds to me like you are performing a needed function, and that you do file your 990 to show what you report, what your income is. And you have no problem with filing the forms?

Reverend JONES. No, sir, we have no problem whatsoever.

Chairman PICKLE. All right. I thank you very much.

Now, Mr. Schulze.

Mr. SCHULZE. Thank you, Reverend Jones, for your testimony.

You did say that we should have accountability. How far does that go? Should all religious organizations be prepared to spread on the record their income—where it goes, how it is broken down, salaries, overhead, that kind of thing—or should we just use raw figures?

Reverend JONES. I think I stated that in my closing, that people need to know how much money is raised and actually where that money goes. And I would say this, that a year ago—and I think you have heard this from testimony today—a year ago, probably everybody would have said something a little bit different, but the donors vote with their pocketbooks, and right now everybody is willing to put it all on the table and say, "This is what we do."

Mr. SCHULZE. Do you think that will continue? Do you think that is a short-term phenomenon? Perhaps that is the reason for these hearings, but it seems to me that if we could get that kind of voluntary compliance, there would be absolutely no need to pass any additional laws. And I would like to see that we do not pass any additional laws.

Reverend JONES. I think just a moment ago, Dr. Roberts made the statement he is not a member of the NRB; but if it would help, so that the donors would realize that the television ministries are really going to put it all on top of the table, that he would join. And I am a member, and I also submit to the Better Business Bureau, and I also answer questions.

And since the PTL scandal, a number of our partners have been concerned and have called, and I personally have called them back rather than write a letter, so that if they have other questions related to the ministry, I can answer those questions. And also, that is why I am here today.

Mr. SCHULZE. Reverend Jones, I know there are organizations which receive food from food processors, large corporations, where for example the can is mismatched, or there is a problem, not a health problem, but a packaging problem. Do you get into any of that, or do you deal only in bulk commodities?

Reverend JONES. No; we do get some of that. We have received some of that. In fact, some of the food that I brought here was donated by the Heinz Co.

Mr. SCHULZE. How does that work, taxwise, or don't you get involved with that? Do they take a tax deduction for that kind of——

Reverend JONES. My people work with that, but we also work with our attorneys. That is an area where we are very, very cautious, because you know, they could give something and say it is worth so much, and then they get a big tax writeoff. And our people work with them on that, because whatever we say—our attorneys work with their attorneys so that when this comes to IRS, there is no conflict there. We do not want them to get in trouble, and we do not want to be in any trouble. So we are very cautious at that point.

Mr. **Schulze**. Do you see need for additional legislation, and also do you think this is the tip of the iceberg, these problems that we have had lately, or is this the bulk of the problem?

Reverend **Jones**. As far as I personally know, I do not know of anyone who has done what took place at the PTL Club. I think most of the ministries, as you have heard today, most of them are audited. They want people to know.

The other aspect which I do not think has been brought out or very much said today is the fact that not only is there this auditing, but there is also the press, who is willing to report any kind of thing that takes place that should not take place.

Mr. **Schulze**. Thank you, Reverend Jones.

Thank you, Mr. Chairman.

Chairman **Pickle**. Mr. Anthony?

Mr. **Anthony**. Reverend Jones, did I understand your testimony to say that your TV ministry has had a drop of 25 percent in its donations?

Reverend **Jones**. We have put on a scale what has taken place since actually, April. We did not have any trouble when it was announced that he had had an affair. It was when he had taken so much money, that our funds began to drop.

Mr. **Anthony**. By "he" you are referring to Jim Bakker?

Reverend **Jones**. Jim Bakker. We had a good August, but then during the whole month of September it was all back in the news. And you can almost tell from what is in the news the way our giving goes. And I think the worst month we had since April was September, which really shocked me, because we thought we were through the worst part of it—but when it elevates in the news, our giving goes down.

Mr. **Anthony**. I assume you have seen some of the more recent polls that have been conducted and published in terms of how the public feels in terms of whether or not they trust or distrust the TV ministers, and whether or not there are better ways to spend their money, other choices to make their gifts?

Reverend **Jones**. I have seen those polls, and I was also delighted that I had the Washington, D.C. food distribution planned in February, because I was asked by the media here—they thought I was coming here to prove I was doing what I was saying I was doing. But yes, I have seen those polls.

Mr. **Anthony**. There is one thing in those current polls that really struck me. I have not brought it up before, but after having heard so many of the TV ministers testify today, with most of them, you included, coming down very strongly on the point that you already conduct your business with audits, independent boards, and you make your entire operation in terms of revenues and expenditures known to a broad range of people.

The one question that I think I was the most surprised to see the overwhelming response to was whether or not additional disclosure should be required. The question was not broken down as to whether or not it should be done within the industry, which others have testified that they are attempting to do—and I know you are a member of the NRB, and I assume you support their renewed efforts to tighten down on a voluntary basis the internal policing of the industry—but taken one step further, there have already been voluntary programs on the books. Billy Graham came out with one, and the top 10 TV ministers chose not to participate.

Why are we, the skeptics on this committee and the skeptics in this country, why should we be led to believe that anything would be any different if you tighten up voluntarily the rules? What is to be any different a year from now, when it is off the front page, and people go back to doing business as usual—not everybody, but those few who want to abuse the system.

Reverend JONES. I do not think we are going to go back—everybody says we are going to ride out the storm—and like us, it was worse this month than prior to. And I think that one of the things that is going to happen is that the television ministries themselves are going to put out more simply because the public is going to demand more.

Mr. SCHULZE. Oh, I do not think there is any question but they are demanding more, and I think that is the reason these hearings are being held, to establish a record as to whether or not the IRS has the proper tools and whether or not those tools need to be strengthened.

Do you have any position as between encouraging the committee to stop and let the industry do it on its own, or whether or not we should take a hard look, work with the industry, and maybe add some additional legal requirements, to ensure that the public will regain that lost confidence?

Reverend JONES. I think one of the signals would be—I would encourage the committee to wait until after the NRB is put in place, and then see if all of the present members join it and abide by the guidelines and by the rules. And if they do not—now, we are looking at, I think, January—if they do not, then that may be a signal that there needs to be something that is stronger. I think Christianity, the very base of who we are, is supposed to be honesty integrity and truth, and we do not need another PTL scandal—nobody does.

Mr. SCHULZE. So if the people in the industry had been abiding by those three words, we would not even need what Government regulations we have on the books.

Reverend JONES. If the NRB had been in force, let us say, three or four years ago, it is very possible that this would not have taken place. Now, I am talking about with teeth; I am not talking about just something being loose. Somebody said that the watchdog turned into being a sleeping dog. I do not think it is going to be a sleeping dog when the NRB gets through. I do not believe that.

Mr. SCHULZE. Thank you.

Mr. Chairman, I would just close by relating to Reverend Jones a personal story. Several months ago, when the Government was giving away surplus cheese and other foods that we have in our storage, in my home county of Union County, I went out to watch the operation. It was in December, and it was close to freezing. And I must tell you that I was absolutely shocked. It was almost an animal instinct from those people who were there, demanding and wanting that food. It was a bureaucratic nightmare. It was the biggest mess that I have ever seen. But it certainly taught me a lesson, and it told me that there was a need there.

And I just say congratulations to you and keep up your fine work.

Reverend **Jones**. Thank you.

Chairman **Pickle**. Mr. Thomas?

Mr. **Thomas**. Thank you, Mr. Chairman.

Thank you, Reverend Jones.

I think one of the problems that we all have is that men are not angels; if they were, you would be out of business and so would Government. But we are both in business.

Could you tell me, if you have the knowledge, why you selected Coopers and Lybrand as your CPAs?

Reverend **Jones**. I am glad you asked that. I am Scott-Irish, and they gave me the best bid.

Mr. **Thomas**. OK. You are a member of NRB?

Reverend **Jones**. Yes, sir.

Mr. **Thomas**. Are you involved in the EFICOM process at all?

Reverend **Jones**. I am not involved as such, but I started to say a moment ago when Congressman Anthony was talking, I called them about four months ago, and I said when you finally get all this put in place, I want my name at the top of the list.

Mr. **Thomas**. Would you consider on your television broadcast placing either a printed or some verbal message indicating the voluntary guidelines by which you operate?

Reverend **Jones**. Do you mean verbally or written—do you mean the way I operate?

Mr. **Thomas**. No; the fact that you adhere to the EFICOM procedures.

Reverend **Jones**. I would not have any difficulty putting it, say, in the credits and giving it plenty of time, or even maybe at the very conclusion when we pop up who it is sponsored by, having it at that point. No, I have no difficulty with it whatsoever. And I think you will probably be seeing that.

Mr. **Thomas**. Do you have any procedure at all for returning donations from people who give them to you, either materials or money?

Reverend **Jones**. We have had some people—usually, say someone sends us $1,000, and the next week we get a letter from, say, a daughter who says, "My mother is mentally deranged," or "My mother has lost her sense," or something of this nature, "and would you please return it?"—we have returned money; yes, we have.

Mr. **Thomas**. So you have a return procedure?

Reverend **Jones**. We have had a return procedure. Now, if you send me $1,000, and a year from now—you understand what I am saying.

Mr. **Thomas**. Sure.

Reverend **Jones**. But we have returned money, yes, we have.

Mr. **Thomas**. OK. If you are given foodstuff, wheat or whatever, the farmers have the ability to show a deduction on their income tax. Are you familiar with the way in which they record that deduction? Are they entitled to get the market value of the product, or do they get the actual growing cost of the product? Do you know?

Reverend **Jones**. To the best of my knowledge, that is very complicated, and I do not know, but I can get you a written answer, and I would be more than delighted to send it back.

It has been explained to me on two different occasions, but I think it changes from time to time, and I would have to let my people get that for you and send it back, and I would be delighted to do that, Congressman.

Mr. **Thomas**. I would appreciate it very much.

Thank you very much for your testimony, your openness, and your willingness to be here. I hope by this stage in the hearings, people understand that the Oversight Subcommittee by its very nature has to ask a number of questions which do not lead anywhere, but without asking them, we do not know that they do not lead anywhere.

Reverend **Jones**. I understand.

Mr. **Thomas**. And that is the function of an oversight committee. I appreciate your openness and willingness to testify.

Thank you.

Chairman **Pickle**. Mr. Dorgan?

Mr. **Dorgan**. Thank you, Mr. Chairman.

Reverend Jones, I have watched you on television from time to time, late at night—here, I believe, on Channel 20 in Washington, DC——

Reverend **Jones**. 11 p.m., to be exact.

Mr. **Dorgan**. 11 p.m. You know you make a very forceful appeal. I think to myself you are doing the right thing, and the Lord's work is really providing food to hungry people around this world. I think we have 600 to 800 million people who go to bed at night with an ache in the belly. Our grain bins overflow, and we cannot figure out what to do with this surplus crop.

Yet, as a viewer, from time to time I wonder, what is this Jones about? What does he do with this money he gets if I send him some money?

From your testimony today, I think I understand that you believe that full accountability is in your interest and in everybody's interest. Everybody who deals with you needs to understand what you do with those funds in order to be confident that the purpose for which they have contributed is being served. I just want to say that I think you are right on target. I think those of us who are thinking through these problems today really appreciate what you have said.

You struck a chord with me when you talked about Haiti, because I was in Haiti recently. I have a very keen interest in hunger issues, and work on the Hunger Committee. I do not think that I have ever seen any more wrenching, desperate poverty than I have seen in Haiti. Haiti is closer to where we sit today in Washington, DC, than my district, in North Dakota. In this hemisphere, close to us, there is the most gripping poverty that I have ever seen.

So I just want to tell you that your attempting to stir people's conscience about providing some help to those who are helpless, is really the Lord's work. I think many of us need to say we appreciate what you're doing.

Reverend **Jones**. I would like to say in response to that, I do not have the fear that some of my brothers have. I understand where their fear is coming from. But when I was here in Washington, DC, Congressman Mickey Edwards spoke at the monument for me. When I came and met with 20 congressional agricultural aides, it was Senator Boren who introduced me. So I see, gentlemen, that we really are in this together, and this is not just some kind of pitch. I find a genuine concern from your side of the table, and it is that that I appreciate, and I see us walking down the road together, and I see us all wanting to take a very, very bad experience and get it behind us so that it does not happen again.

Mr. DORGAN. Full accountability is in your interest, isn't it? The lack of it allows these problems to occur which really hurts your fund raising.

Reverend JONES. One of the things I do is say "I am going to do this project," and then I go do it. I said, "I am going to bring 1 million pounds of food to Washington, D.C." I brought in 1.1 million pounds of food. People believe what I am doing. But when the PTL scandal broke, people who had never questioned me questioned me not only about how much do you make, what kind of car do you drive, how many homes do you have—but where do you go on vacation, what do you like to eat—down to that.

I have never gone around, carrying my financial summary in my vest pocket. I do that now, because I have to. And so yes, it is going to be in our best interest, and I will be glad, just like you gentlemen will be, when it is over and we can go on about what we are supposed to be about.

Mr. DORGAN. Reverend, thank you for your testimony today.

Chairman PICKLE. Thank you very much.

Mr. McGrath.

Mr. MCGRATH. Thank you, Mr. Chairman, and thank you, Reverend Jones, for being here with us today.

Not too long ago, I had the opportunity to speak on just this subject with other section 501(c)(3) not-for-profit organizations regarding unrelated business income. And they were just as worried as you are and the other ministers who appeared before us, regarding what this committee might or might not do.

One of the participants in that hearing that day was CARE, Inc. They do a similar kind of activity as you. They ship a lot of food overseas. One of the things that they brought to my attention that day was that their 501(c)(3) designation did not exempt them from a custom user fee in the harbor—a harbor fee of 0.05 percent of the value of what they are shipping.

And I am just wondering whether or not you are subject to the same—or do you know—whether you are subject to the same fee?

Reverend JONES. We have, to my knowledge, paid fees in some foreign countries.

Mr. MCGRATH. This is a fee paid to the United States to purportedly fund the dredging of the harbors and whatever, so the ships can get out. It is my understanding that this was brought about by a reconciliation bill a few years ago, and I would suggest that people like Reverend Jones and CARE, Inc., have enough problems that they do not have to be saddled with some additional user fee.

Reverend JONES. It may be under a different title that we are paying it. But we are probably paying it, too.

Mr. MCGRATH. Thank you very much for being here.

Reverend Jones. Yes, sir.

Chairman Pickle. Congressman Rangel.

Mr. Rangel. Thank you, Mr. Chairman.

Let me thank you, Reverend Jones, for the breath of fresh air that you bring to this Congress. I really find it difficult to congratulate ministers for doing the Lord's work. It is almost like congratulating politicians for being honest.

What percentage of your work is overseas as opposed to what you do domestically?

Reverend Jones. Right now, we are just about, I would say, half and half. Now, that may be give or take just a little bit.

About a year ago August, we started a very, very aggressive plan to take food to the continental United States, and we have been to 42 States. I think what Congressman Anthony said a moment ago—many people want to say that we really do not have this many hungry people in America. And yet, when I was with the Select Committee on Hunger, the Harvard Physicians Task Force spoke right before I did, and it is a very alarming study that they did.

And I have been out there, and I know that we do have hungry people. And so what we try to do is strengthen the existing organizations who are trying to feed those people that are already out there.

Mr. Rangel. Well, you have got to let us help you, because we hope that your number multiplies. It just seems to me that Christ's work is feeding the hungry, providing shelter for the homeless, and water for the thirsty, and these are the things that we normally expect would be done, except some of the so-called churches have gotten themselves involved in more bizarre types of activities, and I wish they would come on home and join with you in the work that you are doing.

Tell me, the moneys that you raise, what percentage of those moneys are used administratively as opposed to what actually reaches the poor, whether in this country or abroad?

Reverend Jones. I think the actual figure that Coopers & Lybrand gave us was 11 percent for fundraising and also for the administration. So that 89 percent goes toward the projects and the participation thereof.

Mr. Rangel. You mentioned a general perception that hunger is not here, and it is abroad. I assume that you take polls. Do you have any reason that you can share with us why so many of your brother evangelists make the appeals for those overseas as opposed to supporting domestic programs to take care of the poor at home?

Reverend Jones. Here is what I hope will come out of this today—and I am glad you asked that, because I want people to realize that this is a partnership; this is the United States of America. And when I went to visit Congressman Mickey Leland last month, he said will you come to Houston and do in Houston what you did in Washington, D.C.? And I said we would be delighted. We are getting ready to ship food to Phoenix and also into Los Angeles.

What we attempt to do is to find those pockets—and you probably already know, I have the mayors' report from the mayors' conference this summer—we have 16 major cities in the United

States who say this: We are going to run out of food before we run out of winter.

So I see you gentlemen having a problem. If I learned anything about the life of Jesus Christ, He was a problem-solver. He went where the problem was, and he tried to solve it. And I want you to know that television ministries are valid, and we are not just preaching all pie-in-the-sky. But when you go back, Senator Tom Daschle is delighted that I take potatoes and corn meal and wheat flour to Indian reservations in South Dakota.

The Bureau of Indian Affairs wrote me about "What have you done in New Mexico?" and we sent them a report about all the reservations where we have gone, trying to help the Indian and what has taken place there. And this is why we have taken a stand with the American farmer, because they helped me get started by giving me grain, and now that they are having difficulty, we are trying to help the American farmer.

So what I am saying is I believe that we have a valid place, rather than, "Send me money this week so I can preach to you next week, then if you do not send me money that week, you will not hear me next month." And we think that this is what we should be doing.

Mr. **Rangel**. Reverend, we want to help you with your work, and I see that my wife is in the audience, and I volunteer her to invite you to New York, where perhaps we can do the Lord's work together.

Thank you very much.

Reverend **Jones**. That is why I came today, and thank you, and we will work together.

Mr. **Rangel**. All right, Reverend.

Chairman **Pickle**. Thank you very much, Reverend Jones. We appreciate your testimony.

Reverend **Jones**. Thank you.

Chairman **Pickle**. Now, we are going to ask Rev. Paul Crouch if he will please come forward.

Reverend Crouch is president and founder of the Trinity Broadcasting Network.

Reverend Crouch, we regret that you are the last one of the individual witnesses here. I do not know how it appears that your name came at the end; it starts with a "C", but we did not pick them on that basis. But you have been very patient, and we appreciate your staying and being with us.

We will be glad to hear your testimony.

Before you start, let me say to the audience that following your testimony, there will be a panel including Rev. Ben Armstrong, Gordon Loux and Richard Yao; and then another panel including Roscoe Egger and Michael Sanders.

Now, we will be pleased for you to proceed, Reverend Crouch.

STATEMENT OF REV. PAUL F. CROUCH, PRESIDENT AND FOUNDER, TRINITY BROADCASTING NETWORK, INC.

Reverend **Crouch**. Thank you, Chairman Pickle.

I, too, in deference to the lateness of the hour, will keep my remarks brief.

In some ways, I may not even fit into this hearing, in that I do not really consider myself to be a television evangelist, I guess, in the typical sense. Trinity Broadcasting is the largest group owner of Christian broadcasting stations and, in fact, secular broadcasting stations in America, with over 80 either wholly owned or affiliated television broadcast stations.

While there may have been some reluctance upon the part of some of the TV ministries to be here today, Trinity Broadcasting and I have looked forward to this day to bear what I believe to be an exemplary record of Christian public service.

What we do want to make crystal clear today is that recent press reports of abuse in TV evangelism does not apply to the vast majority of sincere, hardworking, church-related TV ministries any more than scandalous revelations of abuse in Government apply to the majority of sincere, dedicated legislators and other public servants.

In our rush to judgment, it would be unfair to forget the enormous burden that the church and church-related ministries do indeed lift from the shoulders of Government, as we have just heard from Rev. Larry Jones; not to mention, of course, the primary purpose, which is relieving human suffering and elevating the moral standard of mankind.

Recent press reports cite a substantial decrease in crime statistics nationwide. Could it be that a revitalized church, that now has a voice directly into the hearts and homes of Americans through this powerful tool called television is finally being heard?

I brought just a few lines of a letter which is typical of many of the over 70,000 letters that we receive a month at the TBN headquarters in southern California. This is from a viewer in Santa Ana, Calif.

She writes:

> In April of 1985, I was stoned, drinking, still running from God, late, at 12:30 a.m. I switched the TV and landed on one of your programs. For 15 years, I was addicted to drugs, an alcoholic, very suicidal, always overdosing, always stoned, in and out of jails and other institutions, beyond human help. Then, I said, "I do" to Jesus Christ. I knew I would never be the same. I fell asleep, woke up in the morning, a new creation. I felt loved for the first time in my life. I have been straight ever since, and helping you spread the good news.

As I said, this is but one of over 70,000 letters a month that we receive at TBN, many of them with these dramatic life-changing testimonies.

In a land where we spend more on dog and cat food than the combined annual budgets of all main-line denominational churches, and in a land where annual cigarette sales total $15.1 billion, and the combined annual budgets of all TV evangelists is less than $1 billion, it seems to me that the focus of our national attention may be misplaced.

It also seems to me that the ministry I represent here today has received a disproportionate share of adverse publicity for the alleged abuse of a few.

Yes, accountability is the watchword for the church, for TV ministries, as well as industry and Government. The Apostle Paul, in

Romans Chapter 12, exhorts us as Christians to "provide those things which are honest in the sight of all men." In that same spirit of openness, I offer to you, Mr. Chairman, my cooperation in answering any questions you or the other honorable Congressmen may wish to ask.

[Statement of Reverend Crouch follows:]

TRINITY BROADCASTING NETWORK, INC.
P. O. BOX C-11949
SANTA ANA, CALIFORNIA 92711

TO: SUBCOMMITTEE ON OVERSIGHT, HOUSE WAYS AND MEANS COMMITTEE,
THE HONORABLE J. J. PICKLE, CHAIRMAN

FROM: REV. PAUL F. CROUCH, PRESIDENT
TRINITY BROADCASTING NETWORK, INC.
P.O. BOX C-11949
SANTA ANA, CALIFORNIA 92911
(714) 832-2950

RE: COMMENTS ON THE OPERATION OF RELIGIOUS ORGANIZATIONS

DATE: OCTOBER 6, 1987

I am here today at the invitation of the Subcommittee to discuss the legal and operational issues involving religious organizations exempt from federal income taxation in accordance with section 501(c)(3) of the Internal Revenue Code. I was ordained to the ministry by the Assemblies Of God Church in 1955, and since my college days in the mid-1950's at the Central Bible Institute in Springfield, Missouri, I have been actively involved in church and christian outreach work.

In 1973, with the Lord's leading, I founded the Trinity Broadcasting Network, Inc., which today through its affiliates operates twelve full power television stations and over fifty low power television stations around the country. Trinity is a public charity and it provides religious and inspirational programming to its viewers. Since its inception it has received countless commendations and recognitions for exceptional service to the public, including acknowledgments from national leaders, such as President Reagan, and local leaders, such as Mayor Tom Bradley of Los Angeles. Trinity has also received over fifty "Angel Awards" for excellence in programming from the "Religion In Media" (Rim) organization, and several "Golden Halo Awards." In 1981 the National Religious Broadcasters awarded Trinity its "Broadcaster Of The Year Award," and in 1986 its "Foreign Broadcaster Of The Year Award."

Through its broadcast and programming activities, Trinity also operates a 24-hour prayer and counseling line, which over the years has saved many lives and prevented numerous suicide attempts. Trinity also operates the "His Hand Extended" program, which provides direct assistance to poor and needy individuals and families, and over the last year has distributed over 35,000 articles of clothing, and over 15 tons of food. Trinity also maintains the "House Of Paul" which provides shelter and relief for abused wives and children, unwed mothers, and homeless individuals. Trinity supports numerous mission projects, and helps support "The Lord's Kitchen" in East Los Angeles which feeds over 1,700 people a week.

As highlighted in Chairman Pickle's July 2, 1987 letter inviting me to participate in the Subcommittee's proceedings, the focus of these hearings includes how a tax-exempt organization such as Trinity: (1) qualifies for tax-exemption; (2) provides for public disclosure and accountability; (3) insures that contributions are used for exempt purposes; (4) prevents private inurement; and (5) raises support for its activities. Today I want to briefly comment on each of these points, and describe how Trinity deals with them.

Before I begin, however, I want to note that the Subcommittee has, to my knowledge, only requested the participation of Protestant, evangelical groups. It has not requested appearances of any representatives of any Catholic, Jewish, or secular organizations, which are equally bound by the regulations established by the government. While this apparent limitation may seem appropriate in light of the highly regrettable "PTL" scandal, I encourage the Subcommittee to seek the views of additional, non-Protestant and secular groups in order to ensure a complete and full record. By expanding its focus, the Subcommittee will also help ensure a full examination of the sensitive church/state constitutional issues involved.

1. TAX-EXEMPTION QUALIFICATIONS

Trinity qualifies for tax exemption since it meets the organizational and operational tests for 501(c)(3) organizations. Specifically, Trinity's articles of incorporation provide that it was organized for religious purposes to be obedient to the Lord Jesus Christ's command to "go ye therefore and teach all nations, baptizing them in the name of the Father, and of the Son, and of the Holy Spirit"; to sponsor and conduct church worship services, crusades and retreats; to establish, operate and assist christian missions, missionaries, churches and orphanages; to assist and provide financial and material relief to the poor and disabled; to license and ordain ministers of the Gospel and, among other religious functions, to engage in christian broadcasting to further its purposes.

Trinity meets the operational tests since it only engages in activities which further its exempt religious purposes. Moreover, Trinity refrains from political activity, does not engage in substantial amounts of legislative or lobbying activity, nor is it operated for the benefit of private individuals or shareholders.

Moreover, Trinity meets each of the fourteen criteria set forth by the IRS in its Exempt Guidelines Handbook and used to determine whether religious organizations may also properly be classified as a church. While Trinity is not formally organized as a church, its compliance with all of the criteria examined by the IRS for churches also qualifies it for exemption. Finally, Trinity qualifies for standing as an exempt organization because all of the revenues and donations it receives are used for its exempt purposes.

2. PUBLIC DISCLOSURE AND ACCOUNTABILITY FOR EXEMPT ORGANIZATIONS

Since its creation nearly fifteen years ago, Trinity has steadfastly promoted and held to the principles of stewardship and accountability. This is why it has commissioned annual independent certified audits, and has had a policy of making those audits available for public perusal at each of its full power broadcast stations. Trinity also periodically discloses budget and expenditure items during broadcasts and in its monthly newsletter. A sample of this kind of disclosure is found in

Trinity's July 1987 Newsletter which provided a pie chart of expenses, and showed that in 1986 Trinity expended only 7.9% of its total revenues in fundraising efforts.

Public disclosure and accountability are also enforced by the annual submission of Trinity's IRS Form 990, and through Trinity's compliance with the regulations of the Federal Communications Commission. For example, when Trinity acquires a construction permit authorizing the building of a broadcast facility, it has a period of from eighteen months to twenty-four months to complete construction and begin over the air operations. A failure to construct would result in the loss of the FCC authorization.

Trinity also complies with a wide variety of state regulations and statutes which require periodic public filings. The Federal Trade Commission also has various regulations which mandate oversight and accountability. Trinity also works with industry organizations, such as the National Religious Broadcasters, which has recently established its "Ethics and Financial Integrity Commission." "EFICOM" will require the submission of annual audited reports for organizations which receive donations in excess of one million dollars, and it will conduct regular peer reviews to ensure that member organizations are being properly operated.

Finally, as a broadcaster, Trinity is perhaps subject to the greatest form of public accountability, its viewers. Trinity regards its viewers as members of its electronic church and in an average month it receives thousands of telephone calls, and an average of 70,000 letters, dealing with every aspect of its programming and operations. Such a level of visibility and accessibility to the public mandates the highest level of public accountability and disclosure. To ignore the wishes of its viewers would place at risk Trinity's broad-based viewer support as well as its authority to broadcast.

3. PROCEDURES WHICH ENSURE CONTRIBUTIONS ARE USED FOR EXEMPT PURPOSES

To ensure a proper accounting of all funds raised, and how they are expended, Trinity employs a sophisticated computer accounting program which logs at the moment a donation is received whether it is reserved or unreserved, and if reserved, for which project or purpose. Thereafter, this process, which has been certified and checked and rechecked over the years by Trinity's CPA's, which are subject to regular peer review by the American Institute of Certified Public Accountants (AICPA), requires rigid adherence to a detailed written purchase order procedure before any monies are spent. During the expenditure process each purchase order is classified within a specific budget category or by the reserved fund project. Without a specific designation no monies can be released.

A simple overview of the ten step process to which each dollar donated to and expended by Trinity is subjected to is as follows: A. Cash in: (1) All mail is processed in a secure, camera-monitored room; (2) contributions are then computer logged, classified as reserved or unreserved and donor receipts are issued; 3) deposits are then made daily and balanced with the computer totals; (4) daily and weekly balancing is done by Trinity's Accounting Department, and Vice President of Finance, and contribution and cash management reports are then prepared; (5) the monthly balancing of bank statements are done by the Accounting Department and Vice President of Finance; B. Cash out: (6) the expenditure process is begun with a written purchase order, which may only be initiated by a department head, the Chief of Staff, or a corporate officer; (7) all purchase orders are then approved by a different department head, the Chief of Staff and/or the Vice President of Finance, and all purchase orders over $1,000.00 must also be approved by the corporate President; (8) approved purchase orders are then assigned separate numbers, and classified by budget category or reserved funds designation; (9) all checks paying a purchase order must then be signed by two of the following: corporate President, Chief of Staff, Vice President of Finance or the Assistant to the President; and (10) all purchase orders, cancelled checks and invoices are balanced weekly and monthly by the Accounting Department.

In addition to its daily accounting program, Trinity's annual audit ensures that money is expended for exempt purposes. Trinity's board of directors also receives regular reports from its Accounting Department and the Vice President of Finance. The various state statutes regulating charitable solicitations require that exempt organizations expend funds for exempt purposes, and the Federal Trade Commission has numerous regulations governing fundraising.

Finally, Trinity is an FCC licensee, and as such is subject to ongoing regulatory oversight by the FCC. This FCC oversight ensures that funds are properly raised and expended for the purposes for which they were raised, since a failure to do so could result in the loss of a station's license.

4. PROCEDURES TO PREVENT PRIVATE INUREMENT

From its inception, Trinity has had a policy which prohibits loans to officers, directors and employees. Trinity's policies also prohibit the purchase of any asset or service at a rate greater than fair market value, and Trinity may not sell assets to anyone for less than adequate consideration. Moreover, no officer, director or employee is entitled to any preferential service.

As a christian ministry, Trinity has also instituted a pay scale which provides compensation to all officers, directors, and employees at rates at or below industry averages for such jobs. As President of Trinity, I still reside in the same home my wife and I purchased in 1971 for $44,000, and I presently earn $1,000.00 per week. I also declare as miscellaneous income the IRS mandated percentage of the value of the automobile which is provided to me by Trinity. No one at Trinity makes more than I, and there are no retirement or deferred compensation plans. Finally, Trinity's articles of incorporation require that in the event of dissolution or liquidation, all of its assets must be donated to another exempt organization with purposes similar to those of Trinity. No distributions may be made to individuals.

5. HOW TRINITY RAISES SUPPORT FOR ITS ACTIVITIES.

In 1986, approximately eighty-eight percent of Trinity's total revenues came from donations from the public, including the sale of donated items. Trinity generates additional revenue from the sale of air-time to other religious organizations. Trinity's air-time sales, however, only provide for the reimbursement of Trinity's broadcast costs by the religious organization acquiring the time. Trinity does not sell program time for a profit, and only makes time available on a cost-sharing basis.

Trinity's only other means of generating income is through interest on its deposits, and the management of living trust agreements authorized under California law. Under these living trust, or revocable trust agreements, as they are sometimes called, Trinity must pay the party establishing the trust interest at seven percent per annum on the trust corpus. Any interest generated in excess of that amount may be used by Trinity in the furtherance of its exempt purposes. California revocable trusts may be terminated by the trustor with a thirty day advance written notice.

I do not write books or record musical albums, and Trinity has never offered for sale any item or commodity for which I receive additional compensation. I do not consider myself a televangelist. I am the administrator of a christian television network. I want to emphasize that point and reiterate that all monies raised by Trinity are expended in its broadcast operations, exempt activities, and for the purposes for which they were raised.

6. CONCLUSIONS

Since created, Trinity has strictly followed a procedure providing for public accountability and christian stewardship. It earnestly believes that any organization seeking public support not only has a legal, but a moral and ethical obligation to prepare and make available complete reports on its financial operations and conditions. For nearly fifteen years Trinity has operated with that cardinal rule in mind, and it strongly encourages all exempt organizations to do the same. It presently believes that there are numerous federal and state laws, and regulations, which provide for more than adequate protection of the donating public and it does not recommend the passage of additional legislation. It has been Trinity's experience that people do not support and participate in religious organizations because they believe that the government is protecting their interests. Rather, just as members of local churches have done for centuries, each supporter will regulate his or her involvement and support based on their observation of the organization's performance and integrity.

I hope these brief remarks outlining Trinity's organization and operation are helpful to the Subcommittee, and if there are any questions, I would be glad to respond to them.

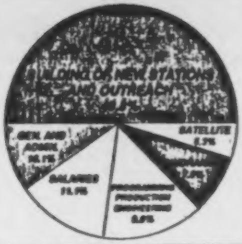
REPRODUCTION OF FINANCIAL PIE CHART FROM TRINITY BROADCASTING NETWORK, INC.'S JULY, 1987 NEWSLETTER

TBN FINANCIAL STATEMENT

In our continuing effort to be good stewards of your investments in TBN we offer this abbreviated report of how your funds were allocated for 1986. Our audited financial statement is on file at all of our full power broadcast stations and is available for your inspection by calling the station manager for an appointment. The many stations listed below are ample proof that your funds have been wisely invested in the most powerful soul winning media available today.100%, 24 hour a day, Christian Television! At the rate we are continuing to build we will soon have all 50 states covered-Praise The Lord! Now it's on to our World!

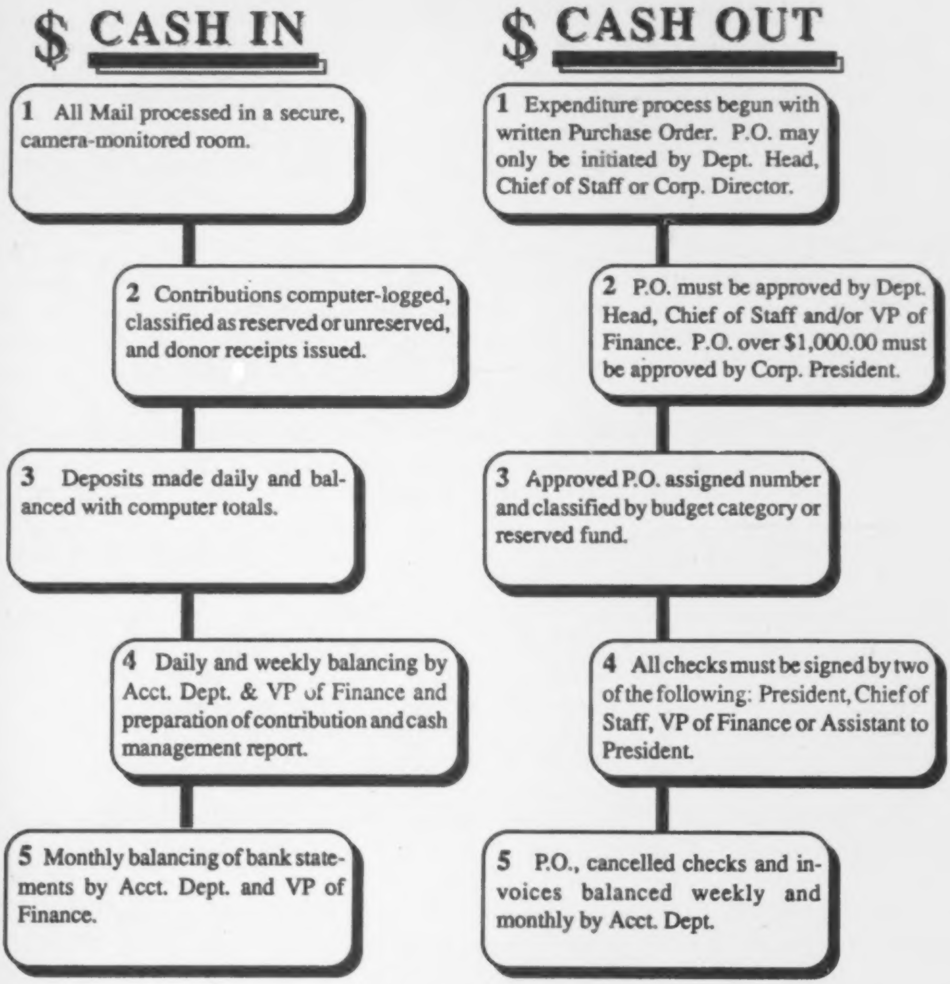
I feel that it is note worthy that on a budget less than one third that many other TV ministries, TBN is building a wholly owned Network that belongs to the body of Christ. Not just a few hours a week but 24 hours a day, 365 days a year!

Jan and I love you with all our hearts and will always strive to be good stewards worthy of your trust.



TOTAL INCOME FOR 1986 $38,358,040

ACCOUNTING PROCESS
TRINITY BROADCASTING NETWORK, INC.



$ CASH IN

1 All Mail processed in a secure, camera-monitored room.

2 Contributions computer-logged, classified as reserved or unreserved, and donor receipts issued.

3 Deposits made daily and balanced with computer totals.

4 Daily and weekly balancing by Acct. Dept. & VP of Finance and preparation of contribution and cash management report.

5 Monthly balancing of bank statements by Acct. Dept. and VP of Finance.

$ CASH OUT

1 Expenditure process begun with written Purchase Order. P.O. may only be initiated by Dept. Head, Chief of Staff or Corp. Director.

2 P.O. must be approved by Dept. Head, Chief of Staff and/or VP of Finance. P.O. over $1,000.00 must be approved by Corp. President.

3 Approved P.O. assigned number and classified by budget category or reserved fund.

4 All checks must be signed by two of the following: President, Chief of Staff, VP of Finance or Assistant to President.

5 P.O., cancelled checks and invoices balanced weekly and monthly by Acct. Dept.

NOTE: All procedures and operations subject to annual audit by auditors approved by peer review of the AACPA.

Chairman PICKLE. Well, we thank you, sir.

First, I would like to see if we could have an understanding about the Trinity Broadcasting Co. with respect to what you have been saying over the air. My office, and perhaps other Congressmen, has received a heavy amount of mail indicating that they have heard on Trinity Broadcast that several of our Christian leaders were being investigated because of the PTL, and that they might run the risk of being taken off the air. Letter after letter quotes the Trinity Broadcasting Co.

Now, they may have heard one thing and may have written another, or misunderstood. Have you put anything on the air through Trinity broadcast that the Christian networks are being threatened and might be taken off the air?

Reverend CROUCH. No, sir—and transcripts of programs and even videotapes have been presented through our attorney to your office. We have never said anything except that this committee is doing its job, charged by the Constitution of the United States. We have told the people that we have been invited to voluntarily attend these hearings. In fact, Mr. Chairman, we have been rather complimentary of you, saying that we, in our first meeting, felt that you were a very fair man and that you were sincerely interested in seeing if there were any public concerns that needed to be addressed.

People get things confused, and we have never intimated that this is an investigation or that there is any threat from this committee that Christian broadcasting is going to be removed from the air in any way.

Chairman PICKLE. Well, I am glad to hear that, because it disturbs us to think that someone was scaring people, because we have no intention of doing that. We do not have the power to do it, and we do not have the power to change any of the regulations. If there is going to be an investigation, it would be done by the Internal Revenue Service or somewhere else. So this is strictly a review, and you assert that you have not been scaring people. I guess people hear one thing, and they kind of believe what they want to hear, and then they write in accordingly.

But I would hope that these hearings would give further evidence to the fact that we are not trying to take anybody off the air at all.

Reverend CROUCH. Mr. Chairman, what we specifically ask people to do is simply send you, if they felt so led to do so, a brief testimonial of what Christian television has meant to them and how it has benefitted their lives.

Chairman PICKLE. Well, does the Trinity Broadcast Network have any UBIT, any taxable unrelated business income?

Reverend CROUCH. No, sir, we do not.

Chairman PICKLE. And you do not file a 990-T, then?

Reverend CROUCH. No.

Chairman PICKLE. Do you file a 990?

Reverend CROUCH. We have always filed a 990.

Chairman PICKLE. But not a 990-T?

Reverend CROUCH. Correct.

Chairman PICKLE. And how many stations do you have?

Reverend Crouch. We own and operate and are affiliated with about 80 by last count, and over 550 cable-affiliated stations.

Chairman Pickle. You do sell air time, segments of time?

Reverend Crouch. We do not consider it an actual sale of air time, sir.

Chairman Pickle. What do you consider it?

Reverend Crouch. We consider it a cost-sharing. We do not charge a commercial rate. We ask Mr. Jones or Oral Roberts or whoever might buy time on any of our stations to simply pay, basically, the light bill for the station for that half-hour or that hour. We do not charge a commercial rate for that. We cost-share.

Chairman Pickle. Well, whether you cost-share it or you sell time, you do receive some income for the time used, in many instances, by the various people who use your network.

Reverend Crouch. That is correct.

Chairman Pickle. And you do not file, I assume, a 990-T because you do not make any profit. The expenses are greater than the income and therefore you do not file any form?

Reverend Crouch. No, sir, because first of all, we only make that time available to other religious organizations engaged in similar activities to ours, and the income from that is simply used to offset the cost of delivering those programs to the public.

Chairman Pickle. Yes. But since the income is used to offset the cost, then you do not have any unrelated business income.

Reverend Crouch. We are advised by our attorneys this is not unrelated business income.

Chairman Pickle. Well, I do not know that it is, and I am not contending that. I am just trying to figure out how you operate.

Reverend Crouch. But the income from that is of course included in our 990.

Chairman Pickle. Well, is all programming for all of these stations reviewed to determine whether they further your tax-exempt religious purposes?

Reverend Crouch. Reviewed by whom?

Chairman Pickle. By you, I presume, first.

Reverend Crouch. Yes, of course. Our board of directors have regular reviews of the——

Chairman Pickle. Do you have a board of directors?

Reverend Crouch. Yes, sir.

Chairman Pickle. Are they members at-large throughout the country?

Reverend Crouch. We have approximately 12 different members of the various corporations that comprise the Trinity Broadcasting Network.

Chairman Pickle. Are they members of your family?

Reverend Crouch. Some of them are.

Chairman Pickle. How many of the 10 or 12?

Reverend Crouch. Two.

Chairman Pickle. Only two?

Reverend Crouch. Yes.

Chairman Pickle. All right. Mr. Anthony.

[The following was subsequently received:]

WASHINGTON, DC, *October 27, 1987.*

ROBERT J. LEONARD,
Chief Counsel, Committee on Ways and Mean, U.S. House of Representatives. Washington, DC.

DEAR MR. LEONARD: * * * Rev. Crouch answered the questions concerning his family's involvement in the various corporations that are affiliated with TBN by identifying only his wife, and brother as family members. Upon reflection, Rev. Crouch also would note that two of his brothers-in-law are connected with corporations affilated with TBN. Since they are not immediate family members, as Rev. Crouch understood the question, they were not identified as family members in his response. This additional information ensures that the Subcommitte's record is complete and accurate regardless of the context in which the question was posed.

* * * * * * *

Sincerely,

COLBY M. MAY,
Attorney for Trinity Broadcasting Network, Inc.

Mr. ANTHONY. Thank you, Mr. Chairman.

Just to prove the chairman's point that he was making, if there is any fear that either this committee, or there is any trend moving in the opposite direction from allowing TV evangelists to perform or radio evangelists to perform, some of the numbers that I have show that there has been a 21-percent increase in 1987 over 1986 in the number of religious radio stations in the United States, including campus stations, and an 11-percent increase in the same period of time for religious TV stations in the United States; so just the very opposite is true, there is an expansion in this particular area.

In your formats for your broadcasts, do you get into discussion of political issues?

Reverend CROUCH. We stick strictly, I would characterize it, to a discussion of the moral issues. And of course, in some cases, that finds its way on into certain political issues—abortion, pornography, and some of the other so-called moral issues. But we do not do any political lobbying of any significance whatsoever.

Mr. ANTHONY. I assume that you have compared your programming with other people in the industry and their programming, that is, the PTL and the Jerry Falwell show?

Reverend CROUCH. Our primary network program is simply titled "Praise the Lord"; it is seen each night at 7 o'clock California time; it is in general length 2 hours. It would be similar in format, I suppose, to the PTL Club, basically.

Mr. ANTHONY. Would it be as extensive in format in terms of talking about issues and talking about specific politicians and talking to them about name and putting out of voting records for Members of the Senate and the House?

Reverend CROUCH. No. We have never published voting records or any of those kinds of activities.

Mr. ANTHONY. I took the liberty to go back and have for me transcripts of various shows reproduced, and I also had underlined those portions that talked specifically about legislative issues and about political issues. And I have not had a chance to go into it in great detail with previous witnesses. If we got into it, we would probably be here for a week.

But you have no disagreement, I take it, with the fact that you would lose your tax-exempt status if you did a substantial amount of political engagement in terms of trying to move legislation and/or participation in political campaigns?

Reverend CROUCH. Yes, sir, I understand that.

Mr. ANTHONY. I assume you do not have any disagreement with that.

Reverend CROUCH. None.

Mr. ANTHONY. Do you think there is any abuse in the industry that needs to be checked?

Reverend CROUCH. Sir, there is always abuse in any industry, and I have struggled with the philosophical approach to this. I think where I come out is that, first of all, it is impossible to totally legislate morality. Second, I think there are ample statutes on the books and regulations within the Internal Revenue Service that are already in place and perhaps what is needed is more budget for enforcement. That would be my observation.

I do not think there is any crying need at this time for—you know, we can pass 10,000 new laws in the next year, and there will always be a way for the cheater to find a loophole and to cheat.

Mr. ANTHONY. Let me see if I can give you a prime example of what bothers me. You are sitting on that side of the table; I am sitting up here. You are worried about the state involving themselves in religion, and I am on the political side so I am concerned about religion involving itself in politics.

I went home a couple of years ago, and I was asked by my sister-in-law why I had voted for a particular amendment that pertained to having Playboy transcribed in Braille. I asked where she got that information, and she said she had gotten it from one of her religious organizations. And it was a family moral issue, and I said, well, give it to me, and let me read it.

So I took it out and I read it, and I said, "Now, sit down, and let me explain to you exactly what happened from the beginning to the end."

Well, when I got through explaining it to her, she said, "Well, I would have voted like you voted."

But it took a long conversation to get that corrected.

Now, inasmuch as it is a privilege, and if you do get overly involved—it does not say that you cannot get involved—it just says you cannot get past substantial—I was just curious as to whether or not you thought there was some abuse and it would be a proper area for us to take a look at. And I appreciate your response.

Reverend CROUCH. Thank you, sir.

Chairman PICKLE. Congressman Rangel.

Mr. RANGEL. Thank you, Mr. Chairman.

Let me congratulate you, Reverend, for your many humanitarian awards received by Trinity, and I wish you well as you continue your work.

I note that in your prepared remarks that you pointed out that the subcommittee had not requested the participation of Catholic, Jewish, or secular organizations.

I do not know whether invitations had been extended—and I hope staff might help me with that—but do you know whether or not Catholic and Jewish groups are actively involved on television, making the same types of financial pleas as the so-called evangelistical groups?

Reverend CROUCH. I know of a number of Catholic—of course, Mother Angelica has a complete satellite network; Father Bertolucci of Ohio, we carry his program on our Trinity Broadcasting Network. There would be, I would say a much fewer number of individuals in the Catholic——

Mr. RANGEL. No, but they are there. Would they be invited to join in with this self-imposed standard of ethics, EFICOM, that we had talked about; would these other groups be invited to participate?

Reverend CROUCH. Well, we felt they should have been, because they——

Mr. RANGEL. No. I meant with your group, the National Religious Broadcasters——

Reverend CROUCH. I am a member of National Religious Broadcasters—

Mr. RANGEL. Would the Catholics and Jews be invited to participate with that group?

Reverend CROUCH. Yes, indeed, and on numbers of occasions they have been, such as the Year of the Bible effort that we were all a part of; Catholics, Jews, Protestants.

Mr. RANGEL. Well, please share with me your views as to how we can reach out and identify some of these people that might assist us in reaching some conclusions. Obviously, Trinity does not have any problem with public disclosure and accountability and filing the 990 and all those other things. One of the major problems we have, as you know, is that churches do not have to file anything. So therefore, when we are trying to get to that small core of abuse, without anything being filed, there is absolutely nothing to work with.

Do you think it is really asking too much for a church just to file a statement indicating what it has brought in and what it has paid out?

Reverend CROUCH. I certainly have no problem with that. Of course, we are not a church in the traditional sense or even in the legal sense. But I think if we were a church, we still would have no problem filing the 990, as the Apostle Paul admonished us, to "provide those things honest in the sight of all men."

Mr. RANGEL. Well, we may have to call on you to protect us if we request that at least your group consider filing a statement so that not only will they be protected, but that we will make certain that those people that get deductions for their contributions can be protected.

Reverend CROUCH. Well, I fail to see how a church is unprotected if it voluntarily files a 990. I fail to see that.

Mr. RANGEL. I agree with you that it would add additional protection. Tell me, you are based in California?

Reverend CROUCH. Yes, sir.

Mr. RANGEL. How long have you retained counsel in Washington?

Reverend CROUCH. Since the beginning, almost 15 years ago.

Mr. RANGEL. Well, let me thank you for your contribution and wish you well in the work that you are doing.

Reverend CROUCH. Thank you, sir.

Mr. RANGEL. Thank you, Mr. Chairman.

Chairman **Pickle**. You have 80 different stations carrying your program, It is obvious, Reverend Crouch, that if it is supported by contributions, since you do not have any unrelated income, in the overall process you are doing a lot of good for a lot of people who need to have this kind of worship on the air. So that speaks well of it.

And all this committee is trying to find out is are those ministries, who are conducting any kind of programming or operation, complying with the Tax Code. That is as far as we want to go.

I would hope that in any future broadcasts you might have, when you ask people to write to their Congressmen in support of Christian television or Trinity Broadcast, that you make it plain you do not suspect we are going to take them off the air. When they hear out there to please write in in defense of, or in support of, Christian television, they immediately think "Oh, somebody is going to take my program off the air."

Reverend **Crouch**. Yes, sir.

Chairman **Pickle**. And that means they immediately write me. And I know you do not intend to do that, so I would hope that it would be made plain.

And I thank you for your testimony. I appreciate it very much, and I thank you for waiting, because I know this has been a long day for you.

Thank you very much.

Reverend **Crouch**. Thank you, Mr. Chairman.

Chairman **Pickle**. Now I want to ask Rev. Ben Armstrong, Mr. Gordon Loux, and Mr. Richard Yao if they will please come forward.

While they are coming forward to take their seats, let me say to the audience that some of the members have gone from the committee over to a closed session with our chairman with respect to a briefing on the United States and Canadian trade treaty that has just been culminated and thus have left this committee.

Now we have Dr. Ben Armstrong, who is executive director for the National Religious Broadcasters; then, we have Mr. Gordon Loux, chairman of the board of directors, Evangelical Council for Financial Accountability, ECFA; and we have Mr. Richard Yao, who is executive director of Fundamentalists Anonymous.

First, Dr. Armstrong, if you will proceed. All of your testimony in its entirety will be submitted in the record.

STATEMENT OF REV. BEN ARMSTRONG, EXECUTIVE DIRECTOR, NATIONAL RELIGIOUS BROADCASTERS

Reverend **Armstrong**. Mr. Chairman, I would like to express our appreciation for this opportunity to testify and present the views of the NRB concerning the financial accountability of religious broadcasters.

I realize the hour is late, and I will try to summarize my remarks, Mr. Chairman, but would like to state that the NRB is an association which includes within its membership some 1,300 religious broadcasters.

The principal goals of the association are to assure that such broadcasters continue to have access—the key word is access—to the airwaves and to promote excellence in Christian programming.

In addition, the NRB has a longstanding and continuing concern regarding the adherence by its members to high standards of both ethics and financial integrity.

The focus of our attention in this area has been somewhat different from that of the Internal Revenue Service and this subcommittee. While we fully share your interest in ensuring that the laws of the United States are faithfully adhered to and enforced, our self-regulatory efforts have been aimed at a broader objective of promoting sound principles of Christian stewardship.We firmly believe that the resources of our various ministries represent a gift of God and that they must be utilized diligently and responsibly to promote the true purposes of Christianity.

In 1944, in recognition of these principles, the founders of our association adopted a code of ethics, the first code of ethics. This code provided that appeals for donations should be of a bona fide character for legitimate religious purposes and that an accounting of such donations should be provided to the NRB board upon request. While this relatively generalized code was not suitable for detailed self-regulatory enforcement purposes, it did provide a useful vehicle for discussions and counseling within the religious broadcasting community on the subject of financial ethics and integrity.

In recent years, it has become apparent that a more specific code was necessary, both to educate our own members and to promote public confidence in the integrity of those broadcasters who do adhere to such standards. To this end, prominent members of NRB took a leading role in 1979 to establish the Evangelical Council for Financial Accountability, and many of our members subscribe to the program developed by this very worthwhile organization.

However, during the fall of last year, well before the troubles at PTL, as has been mentioned here by Dr. Falwell in earlier testimony, the leaders of our association initiated EFICOM. At that time, it was concluded that the NRB, the Nation's leading organization dealing specifically with religious broadcasting, should directly address the issue of financial accountability and develop a code which could be utilized by all of our members who receive donations from the public.

This effort led ultimately to the adoption of bylaws and accreditation criteria for a new Ethics and Financial Integrity Commission, and we call it EFICOM. As amended at a meeting held by our board just last month in Chicago, these documents establish a comprehensive code for the handling of donated funds. Let me just review and summarize briefly the major provisions of this code.

One, a majority of each ministry's board of directors, shall be other than those joined by family relationship, staff, or employees.

Second, such board shall be responsible for adopting the organization's annual budget, overseeing the accomplishment of budget objectives, establishing and reviewing the organization's programs and policies, and determining the compensation of the organization's officers, directors, and principals.

Third, funds collected through donations must be utilized for their intended purpose and may not be absorbed by excessive fundraising or administrative costs.

Fourth, ministries must provide EFICOM with a financial statement and an annual report concerning their operations. For the larger ministries, the financial statements must be audited by an independent public accounting firm.

Fifth, the annual reports and financial statements must be made available to the public.

Sixth, individuals involved in soliciting donations may not be compensated on the basis of a percentage of the funds that are raised.

Seventh, ministries must provide EFICOM with complete information setting forth the value of salaries, allowances, and in-kind benefits that are accorded to each of the officers, directors, and principals in the ministry.

Eighth, fundraising appeals must communicate realistic expectations concerning what the donor's gift will accomplish within the limits of the organization's ministry.

Ninth, for a period of 1 year, ministries must maintain complete copies of all written solicitation materials submitted to the public and transcripts or electronic recordings of all appeals presented over the air. Upon request, these records must promptly be submitted to EFICOM for inspection and review.

Finally, and I believe significantly, our board of directors has proposed that compliance with EFICOM and its policies and maintenance of an EFICOM certification of accreditation should become a condition of membership in NRB for all who solicit donations from the public. We believe that this requirement is an important means of demonstrating to NRB members and to the public that our association is firmly committed to the goal of promoting financial integrity and accountability. I should note that mandatory compliance provision is subject to ratification by our convention, which meets here in Washington in February. But I am confident that this provision will be accepted by our members.

We are aware of the fact that there are risks inherent in the course we have chosen to follow. Undoubtedly, some of our members will find the new standards to be too stringent or too costly and will choose to withdraw from NRB membership rather than comply. Moreover, we recognize that by espousing our ideals in such detail and making so much information available for public scrutiny, we invite the possibility of public criticism whenever one of our members fails to live up to the policies that have been established. However, we accept this as an inevitable risk for any group whose members publicly proclaim high moral and ethical principles. The alternative to proclaiming such principles is to remain silent in the face of impropriety; and worse, to imply by silence that such misconduct is condoned.

While such a policy of silence may be acceptable for membership or associations that view themselves merely as trade organizations, the leaders of our association believe that the NRB must answer to a higher authority and accordingly, that they must use their offices to serve His purposes and not merely the private interests of individual members.

For this reason, we believe the full implementation of EFICOM is essential.

I want to thank the chairman and members of this subcommittee for their expressions of interest and concern, and indeed for their sensitive, responsible handling of this entire matter. It is our intention to keep you fully apprised of the future activities concerning the implementation of EFICOM by our association.

Thank you for inviting me to testify here today. I look forward to responding to any questions you may have.

[The statement of Reverend Armstrong follows:]

Testimony
of
Dr. Ben Armstrong
Executive Director, National Religious Broadcasters
Before the
Subcommittee on Oversight
Committee on Ways and Means
United States House of Representatives
October 6, 1987

Mr. Chairman, I would like to express my appreciation for this opportunity to testify and present the views of the NRB concerning the financial accountability of religious broadcasters.

The NRB is an association which includes within its membership some 1,300 religious broadcasters. The principal goals of the association are to assure that such broadcasters continue to have access to the airwaves and to promote excellence in religious programming. In addition, the NRB has a long-standing and continuing concern regarding adherence by its members to high standards of ethics and financial integrity.

The focus of our attention in this area has been somewhat different from that of the Internal Revenue Service and this Subcommittee. While we fully share your interest in ensuring that the laws of the United States are faithfully adhered to and enforced, our self-regulatory efforts have been aimed at a broader objective of promoting sound principles of Christian stewardship. We firmly believe that the resources of our various ministries represent a gift from God and that they must be utilized diligently and responsibly to promote the true purposes of the Christian religion.

In 1944, in recognition of these principles, the founders of our association adopted the NRB's first Code of Ethics. The Code provided that appeals for donations should be of a bona fide character for legitimate religious purposes and that an accounting for such donations should be provided to the NRB Board upon request. While this relatively generalized Code was not suitable for detailed self-regulatory enforcement purposes, it did provide a useful vehicle for discussions and counselling within the religious broadcasting community on the subject of financial ethics and integrity.

In recent years, however, it became apparent that a more specific code was necessary -- both to educate our own members on sound principles of financial accountability and to promote public confidence in the integrity of those broadcasters who do adhere to such standards. To this end, prominent members of the NRB took a leading role in 1979 in establishing the Evangelical Council for Financial Accountability ("ECFA"), and many of our members subscribed to the program developed by that very worthwhile organization.

However, during the fall of last year, well before the reports of troubles at PTL, the leaders of our association held discussions concerning steps that should be taken to improve standards of financial accountability among our members. At that time, it was concluded that the NRB -- the nation's leading organization dealing specifically with religious broadcasting -- should directly address the issue of financial accountability and develop a code that could be utilized by all of our members who receive donations from the public.

This effort led ultimately to the adoption of bylaws and accreditation criteria for a new Ethics and Financial Integrity Commission ("EFICOM"). As amended at a meeting held by our Board last month in Chicago, these documents establish a comprehensive code for the handling of donated funds. Some of the specific requirements of this Code are as follows:

1. A majority of each ministry's Board of Directors shall be other than those joined by family relationship, staff or employees.

2. Such Board shall be responsible for adopting the organization's annual budget, overseeing the accomplishment of budget objectives, establishing and reviewing the organization's programs and policies, and determining the compensation of the organization's officers, directors and principals.

3. Funds collected through donations must be utilized for their intended purpose and may not be absorbed by excessive fund-raising or administrative costs.

4. Ministries must provide EFICOM with a financial statement and an annual report concerning their operations. For the larger ministries, the financial statement must be audited by an independent public accounting firm.

5. The annual reports and financial statements must be made available to the public.

6. Individuals involved in soliciting donations may not be compensated on the basis of a percentage of the funds that are raised.

7. Ministries must provide setting EFICOM with complete information setting forth the value of salaries, allowances and benefits that are accorded to each of the officers, directors and principals in the ministry.

8. Fund-raising appeals must communicate realistic expectations concerning what the donor's gift will accomplish within the limits of the organization's ministry.

9. For a period of one year, ministries must maintain complete copies of all written solicitation materials submitted to members of the public and transcripts or electronic recordings of all appeals presented over-the-air. Upon request, these records must promptly be submitted to EFICOM for inspection and review.

Finally, and I believe very significantly, our Board of Directors has proposed that compliance with EFICOM policies and maintenance of an EFICOM certificate of accreditation should become a condition of membership in the NRB for all those who solicit donations from the public. We believe that this requirement is an important means of demonstrating to NRB members and to the public that our association is firmly committed to the goal of promoting financial integrity and accountability. I should note that mandatory compliance provision is subject to ratification by our Convention which meets in Washington in February, but I am confident that this provision will be accepted by our members.

We are aware of the fact that there are risks inherent in the course that we have chosen to follow. Undoubtedly, some of our members will find the new standards to be too stringent or too costly and will choose to withdraw from NRB membership rather than comply. Moreover, we recognize that, by espousing our ideals in such detail and making so much information available for public scrutiny, we invite the possibility of public criticism whenever one of our members fails to live up to the policies that we have established. However, we accept this as an inevitable risk for any group whose members publicly proclaim high moral and ethical principles.

The alternative to proclaiming such principles is to remain silent in the face of impropriety --and, worse, to imply by silence that such misconduct is condoned. While such a policy of silence maybe acceptable for membership associations that view themselves merely as "trade organizations," the leaders of our association believe that the NRB must answer to a Higher Authority and, accordingly, that they must use their offices to serve His purposes and not merely the private interests of individual members. For this reason, we believe that the full implementation of EFICOM is essential.

In many respects, it is fair to say that the adoption of this new code is overdue. We do not claim that the existence of such a code would necessarily have prevented the recent series of scandalous disclosures that greatly have disturbed our leadership and, more importantly, the American public. However, we do believe that the establishment of EFICOM puts the NRB clearly and unequivocally on record in support of high standards of financial accountability. It is our profound hope and expectation that, by putting the full weight and prestige of our organization behind this effort, we will promote broader adherence to these principles within the religious broadcasting community and broader confidence in the integrity of the electronic ministry on the part of the American people, and also on the part of their elected representatives.

In this latter regard, I want to thank the Chairman and members of this subcommittee for their expressions of interest and concern and, indeed, for their sensitive, responsible handling of this entire matter. It is our intention to keep you fully apprised of the future activities concerning implementation of EFICOM by our association.

Thank you for inviting me to testify here today. I look forward to responding to any questions that you may have.

Chairman PICKLE. Thank you. Now we will ask Mr. Gordon Loux, chairman of the board of directors of the ECFA, if he will proceed, sir.

STATEMENT OF GORDON D. LOUX, CHAIRMAN OF THE BOARD OF DIRECTORS, EVANGELICAL COUNCIL FOR FINANCIAL ACCOUNTABILITY, ACCOMPANIED BY GEORGE R. GRANGE II, PAST CHAIRMAN

Mr. LOUX. Thank you, Chairman Pickle.

We are also honored to be able to testify here today.

I am Gordon D. Loux. I am president of Prison Fellowship Ministries but am testifying today as the chairman of the Evangelical Council for Financial Accountability. I have with me today George R. Grange II, immediate past chairman of the ECFA.

Mr. Chairman, I request that my previously submitted written testimony be entered into the record of this hearing.

Chairman PICKLE. Without objection.

Mr. LOUX. In the midst of the bad news that we have been hearing about, there is good news. Since 1979, over 400 Christian ministries have bonded together to police themselves and uphold their responsibility to be accountable to the public, the Government, donors, and the constituents whom they serve.

These requirements go beyond the requirements of the IRS form 990 that we have heard about here today. ECFA has established mandatory standards of responsible stewardship. Each member of ECFA must adhere to all of these standards—these standards appear as attachment A in my written testimony—and I would just like to highlight a few of them in the interest of time.

One of them is, "Every member organization shall be governed by a responsible board, a majority of whom shall not be employees or staff and/or related by blood or marriage, which shall meet at least semi-annually to establish policy and review its accomplishments."

Or, another standard: "Every member organization shall obtain an annual audit, performed by an independent public accounting firm, in accordance with generally accepted auditing standards, with financial statements prepared in accordance with generally accepted accounting principles."

And another one: "Every member shall provide a copy of its current audited financial statement upon written request."

Furthermore, each ECFA member must comply with the standards for fundraising. These standards appear in attachment B in my written testimony, and I would just like to highlight three of the twelve that we have.

Representations of fact and descriptions of an organization's financial condition must be current, complete and accurate, without material omissions, exaggerations of fact, or misleading information.

All statements made by the organization in fundraising appeals about the use of a gift must be honored by that organization.

An organization must provide upon request a report with financial information on any project for which it is soliciting donations.

An officer, director, or other principal of an organization must not receive royalties for any product used for fundraising or promotion by their own organization.

These are just a few of the standards.

ECFA has been in business since 1979. There are now over 400 members, with a combined annual income exceeding $1.7 billion.

The PTL scandal has prompted ECFA to review its standards. Some changes to toughen these standards will be considered by our full board this month as recommended by our executive committee.

First, we plan to implement a nationwide network of volunteer accountants and attorneys who will, as teams, conduct random field audits of members.

Second, we are requiring disclosure of salaries, benefits, and other remuneration to officers, directors, and principals of member organizations. Some of ours have already been doing that, as has been highlighted in the press.

There are inherent difficulties in self-regulation, as ECFA can only regulate those who choose to join and adhere to our standards. We also depend upon the accuracy and truthfulness of the certified public accounting firms as well as the veracity of the member organizations.

As you may be aware, PTL was a member of the ECFA from 1978 until December 1986. Over a period of 3 years, ECFA conducted seven face-to-face meetings with representatives of PTL to discuss numerous serious concerns which had arisen. And Mr. Chairman, I have the file here of all of the contacts that have gone on with PTL during the time that they were members.

ECFA relied heavily on the unqualified opinions of the outside auditors of PTL, who were Big 8 firms, and accepted assurances given by PTL staff and board members that internal financial controls had been established and were properly functioning. Hindsight shows us that this reliance was misplaced.

We in ECFA believe emphatically in accountability and full disclosure. We also have strong convictions as to how it should be done. It is our belief that self-regulation is the most effective and efficient way to do this.

Some are clamoring for the Government to become more involved in regulating Christian ministries. I do not believe that Government intervention is the answer. As you are aware, there are serious constitutional hurdles in regulations of religious activities. As you also know, there are thousands of charitable organizations in this country. They come in all shapes and sizes. Some have incomes in the millions of dollars. Most of them are small and struggle daily to provide services and programs that will help others.

The vast majority of these organizations are run by honest, well-intentioned men and women. Many of them are extremely well-run, and most are willing to be accountable. Unfortunately, these organizations of high purpose and low profile seldom make the news.

We believe in self-regulation because we feel it is more effective than Government regulation and that it is more efficient, and that we can cover a wider area than Government regulation and can respond more quickly to evolving needs. But I think most of all, self-regulation is more effective in educating the public—though you have certainly done a good job in the last number of months in bringing many more groups into the ECFA. In fact, 46 new groups have joined ECFA in the last number of months.

ECFA believes that public awareness is a vital part of self-regulation. Last year, ECFA launched a public awareness campaign in both the print and mass media. The response was overwhelming. Thousands of Christian donors wrote, asking about our standards and about who was a member of ECFA.

We will continue to alert the Christian public to the needs of full financial disclosure.

We are also aware that as an organization, we need to continue to develop stronger standards and stricter enforcement. We have not solved all of the accountability problems, though I feel great progress has been made in these last eight years.

Mr. Chairman, thank you for the opportunity to testify before this Committee today. I will be pleased to answer any questions you or your colleagues might have.

[The prepared statement follows:]

TESTIMONY BY GORDON D. LOUX
BEFORE THE SUBCOMMITTEE ON OVERSIGHT
HOUSE WAYS AND MEANS COMMITTEE

OCTOBER 6, 1987

Chairman Pickle, and members of the Committee, thank you for your invitation to testify before this committee today. I am Gordon D. Loux, President of Prison Fellowship Ministries. I also have the privilege of serving as Chairman of the Board of Directors of the Evangelical Council for Financial Accountability (ECFA). It is in that capacity I come before you today, directly representing over 400 Christian ministries who are committed to meeting strong standards of responsible stewardship and accountability.

Mr. Chairman, I am sorry that events of this year have raised such concern about Christian television ministries in the minds of the members of Congress, that you feel compelled to hold these public hearings. What has happened in recent months has been an embarrassment to all of us who claim the name of Christ.

Mr. Chairman, the reasons that caused you to convene this special hearing are the very reasons for which the Evangelical Council for Financial Accountability exists. The events of recent months are of great concern, not only to the members of this committee, but to millions of Americans, and especially to ECFA.

The Evangelical Council for Financial Accountability is an association of non-profit Christian ministries that recognize their responsibility to be accountable to the public, government, donors and the constituents which they serve. A little over a decade ago there was another scandal in a religious charity that attracted the attention of Congress. At that time, a member of the other house, Senator Mark Hatfield, called together leaders in the evangelical community. He urged them to do something to set standards for Christian ministries so that the public could give with confidence and know that their gifts would be used properly. As a result of Senator Hatfield's concern, leaders of Christian charities formed the Evangelical Council for Financial Accountability in 1979.

ECFA has established standards of accountability for certain basic, but very important business practices. These "Standards of Responsible Stewardship" appear as Attachment A to copies of my testimony. The "ECFA Standards for Fundraising" appear as Attachment B. Each member of ECFA must adhere to all of these standards. To assure that every member continues to be in compliance, each organization is reviewed and recertified annually.

ECFA standards cover the composition and function of the board of directors. They require audited financial statements which must be made available to anyone upon written request; in other words, full financial disclosure. Other standards address conflict of interest and fund raising. The Council has been in business since 1979. There are now over 400 members with a combined annual income exceeding $1.75 billion. All of them are evangelical Christian ministries.

Four of the larger television ministries are members of the Council: Billy Graham Evangelistic Association, Ever Increasing Faith Ministries with Dr. Fred Price, Day of Discovery with Dr. Richard DeHaan, and Coral Ridge Ministries with Dr. James Kennedy. Other members include large radio ministries such as Focus on the Family with Dr. James Dobson, Insight for Living with Charles Swindoll, Back to the Bible with Warren Wiersbe and the Moody Bible Institute Radio Network.

The emphasis of the Council is full disclosure of finances, governance and program. We believe that the public has a right to know what is done with the money that our generous citizens contribute. We believe that the public has a right to know how these ministries are run; whether the boards are made up of families and staff, whether the business is being conducted to benefit a few privileged people, and whether they are serving the public in accordance with their charter. We believe that the public should receive fund raising appeals that are clear and descriptive of the programs for which funds are being raised. We believe that the public has a right to know how much money an organization has, how the funds are being managed, and how they are being spent.

Disclosure is not an option for a charity, it is a moral and ethical imperative. Charities receive their charter from the several states giving them the right to organize. The federal government gives each organization the privilege of issuing tax-deductible receipts to its donors. Contributions are solicited from the public to support the various ministries. The Bible teaches that Christians must handle their finances so that they do what is right in both the sight of the Lord and the sight of men. ECFA is founded upon that principle. Even though the leaders of a Christian ministry must be guided spiritually, they must recognize that their organizations are a public trust and that they have the responsibility to be accountable, not only to God, but to man.

Mr. Chairman, I believe that the concerns of yourself and your colleagues are being addressed by ECFA. What you would like to see done is already being done. This hearing is helpful to remind those of us in the Council and other charities outside of the Council, that we all have a responsibility to our fellow citizens to be open, to be transparent, to be accountable, to be above board in all of our activities. If the hearing today raises the awareness of the leaders of Christian ministries of their responsibility to be accountable to the public, then you will have performed a service to the citizens of this country and to God.

Before I state the ECFA position on how to foster greater accountability, permit me to remind all of us that there are hundreds of thousands of charitable organizations in this country. They come in all shapes and sizes. Some have incomes in the millions of dollars. Most of them are small and struggle daily to provide services and programs that will help others. The vast majority of these organizations are run by honest, well-intentioned men and women. Many of these are extremely well run. Most of them are willing to be accountable. I say this, because there is a tendency to focus on the problems and improperly conclude that all charities are the same. This is a mistaken impression. Unfortunately, these organizations of high purpose and low profile very seldom make the news.

We in ECFA believe emphatically in accountability and full disclosure. We also have strong convictions as to how it should be done. It is our belief that self regulation is the most effective and efficient way to do this. I know that many will say that self regulation has not worked. That is not true. Self regulation has worked. It has not worked perfectly, but it is working. Violations of the public trust remind us of our responsibility to be more diligent in assisting charitable organizations to be honest and accountable to our constituencies.

Some are clamoring for the government to become more involved in regulating Christian ministries. I do not believe that government intervention is the answer. There are serious constitutional hurdles in regulation of religious activities.

We believe that self regulation is more effective than government regulation. When self regulators are familiar with a particular segment of our society, they possess insight not available to outside regulators.

Other groups such as the American Institute of Certified Public Accountants, American Medical Association, and the American Bar Association self regulate their respective professions because they have intimate knowledge of the nuances and requirements of their fields. They have gained considerable trust both within the industry as well as the public at large. ECFA has been gaining trust and respectability during the eight years of its existence.

Self regulation is more efficient. Government regulation is never inexpensive. On a budget of a few hundred thousand dollars, ECFA is monitoring approximately $1.3 billion of contributions to member organizations, about 4% of all donations to religious groups.

Self regulation can cover a wider area than government regulation. The government, at best, must limit itself to certain financial areas and perhaps some governance matters. It would be more difficult for it to be the judge of programs.

Self regulation can respond more quickly to the needs. New standards can be added more easily than new laws or regulations can be passed. New situations can be responded to more quickly by a self regulating agency than by a legislative body.

Self regulation is more effective in educating the public. When the regulating body has a self interest in promulgating and enforcing the standards, the regulation is likely to be more vigorous, more consistently applied and the standards more applicable to the needs of the particular segment of society being regulated.

ECFA feels that we represent the Christian donor and are responsible to them. Last year, we launched a public awareness campaign in both the print and mass media. The response was overwhelming. Thousands of Christian donors wrote asking about our standards and about who was a member of the ECFA. We will continue to alert the Christian public to the needs of full financial disclosure.

I admit there are some drawbacks in self regulation. We in ECFA can only regulate those who choose to join and adhere to our standards. We are also dependent on the accuracy and truthfulness of the certified public accounting firms as well as the veracity of the member organizations. This, of course, is a problem facing any regulatory body, whether in the private or public sector.

As you may be aware, PTL was a member of ECFA from 1978 until December 1986. Over a period of three years, ECFA conducted seven face-to-face meetings with representatives of PTL to discuss numerous serious concerns which had arisen.

ECFA relied heavily on the unqualified opinions of the outside auditors of PTL and accepted assurances given by PTL staff and board members that internal financial controls had been established and were properly functioning.

Hindsight shows that this reliance was misplaced. In response, the ECFA Board is meeting in two weeks to consider implementing a nationwide network of volunteer accountants and attorneys who will, as teams, conduct random field audits of members. As a volunteer network, this service will be provided at virtually no cost, whereas a comparable governmental network would likely cost several million dollars.

For self regulation, or for that matter any kind of regulation to be effective, what should the standards be? We in ECFA believe that there are several important matters that standards should address.

The first is governance. The composition and function of the board of directors is of primary importance. We are attempting to educate our constituency as to the role and responsibility of the Board beyond the minimum requirements which a law might prescribe as to size, composition and number of meetings it must hold.

Disclosure of finances is another necessary ingredient of self regulation. We encourage all groups to adopt standards similar to the ECFA Standards of Fundraising to guide how funds are raised, managed, and used. ECFA commends the board of the National Religious Broadcasters (NRB) for the important steps it has taken to make certification by ECFA, or by the NRB Ethics and Financial Integrity Commission, mandatory for continued NRB membership.

Disclosure of the financial remuneration of the principals of an organization should also be required. The Council has not required this up to the present time. The members of the ECFA executive committee are requesting the ECFA board of directors to add a standard requiring disclosure of salaries, benefits, and other remuneration derived from one's relationship with a charity.

We are aware that, as an organization, we need to continue to develop stronger standards and stricter enforcement. We have not solved all of the accountability problems, though I feel great progress has been made in the last eight years.

Mr. Chairman, thank you for the opportunity to testify before this committee today. I will be pleased to try to answer any questions that you or your colleagues might have. If you desire more information after this hearing has concluded, we will gladly provide it for you and your staff.

ATTACHMENT A

ECFA's Seven Standards of Responsible Stewardship

Standard #1 — Every member organization shall subscribe to a written statement of faith clearly affirming its commitment to the evangelical Christian faith and shall conduct its financial operations in a manner which reflects generally accepted Christian practices.

Standard #2 — Every member organization shall be governed by a responsible board, a majority of whom shall not be employees/staff, and/or related by blood or marriage, which shall meet at least semi-annually to establish policy and review its accomplishments.

Standard #3 — Every member organization shall obtain an annual audit performed by an independent public accounting firm in accordance with generally accepted auditing standards (GAAS) with financial statements prepared in accordance with generally accepted accounting principles (GAAP).

Standard #4 — Every member organization shall have a functioning audit review committee appointed by the board, a majority of whom shall not be employees/staff, and/or related by blood or marriage, for the purpose of reviewing the annual audit and reporting its findings to the board.

Standard #5 — Every member organization shall provide a copy of its current audited financial statements upon written request.

Standard #6 — Every member organization shall conduct its activities with the highest standards of financial integrity.

Standard #7 — Every member organization shall comply with each of the ECFA Standards for Fund Raising.

Evangelical Council for Financial Accountability
P.O. Box 17511
Washington, DC 20041
Phone: (703) 938-6006

ATTACHMENT B

ECFA STANDARDS FOR FUND RAISING

1. TRUTHFULNESS IN COMMUNICATION:
All representations of fact, description of financial condition of the organization, or narrative about events must be current, complete and accurate. References to past activities or events must be appropriately dated. There must be no material omissions or exaggerations of fact or use of misleading photographs or any other communication which would tend to create a false impression or misunderstanding.

2. COMMUNICATION AND DONOR EXPECTATIONS:
Fund raising appeals must not create unrealistic donor expectations of what a donor's gift will actually accomplish within the limits of the organization's ministry.

3. COMMUNICATION AND DONOR INTENT:
All statements made by the organization in its fund raising appeals about the use of the gift must be honored by the organization. The donor's intent is related to both what was communicated in the appeal and to any donor instructions accompanying the gift. The organization should be aware that communications made in fund raising appeals may create a legally binding restriction.

4. PROJECTS UNRELATED TO A MINISTRY'S PRIMARY PURPOSE:
An organization raising or receiving funds for programs that are not part of its present or prospective ministry, but are proper in accordance with its exempt purpose, must either treat them as restricted funds and channel them through an organization that can carry out the donor's intent, or return the funds to the donor.

5. INCENTIVES AND PREMIUMS:
Fund raising appeals which, in exchange for a contribution, offer premiums or incentives (the value of which is not insubstantial, but which is significant in relation to the amount of the donation) must advise the donor, both in the solicitation and in the receipt, of the fair market value of the premium or incentive and that the value is not deductible for tax purposes.

6. REPORTING:
An organization must provide, on request, a report, including financial information, on the project for which it is soliciting gifts.

7. PERCENTAGE COMPENSATION FOR FUND RAISERS:
Compensation of outside fund raising consultants based directly or indirectly on a percentage of what is raised, or on any other contingency agreement, may create potential conflicts and opportunities for abuse. Full disclosure of such arrangements is required, at least annually, in the organization's audited financial statements, in which the disclosure must match income and related expenses. Compensation to the organization's own employees on a percentage basis or contingency basis is not allowed.

8. TAX DEDUCTIBLE GIFTS FOR A NAMED RECIPIENT'S PERSONAL BENEFIT:
Tax deductible gifts may not be used to pass money or benefits to any named individual for personal use.

9. CONFLICT OF INTEREST ON ROYALTIES:
An officer, director, or other principal of the organization must not receive royalties for any product that is used for fund raising or promotional purposes by his/her own organization.

10. ACKNOWLEDGEMENT OF GIFTS IN KIND:
Property or gifts in kind received by an organization, should be acknowledged describing the property or gift accurately *without* a statement of the gift's market value. It is the responsibility of the donor to determine the fair market value of the property for tax purposes. But the organization should inform the donor of IRS reporting requirements for all gifts in excess of $5,000.

11. ACTING IN THE INTEREST OF THE DONOR:
An organization must make every effort to avoid accepting a gift from or entering into a contract with a prospective donor which would knowingly place a hardship on the donor, or place the donor's future well-being in jeopardy.

12. FINANCIAL ADVICE:
The representative of the organization, when dealing with persons regarding commitments on major estate assets, must seek to guide and advise donors so they have adequately considered the broad interests of the family and the various ministries they are currently supporting before they make a final decision. Donors should be encouraged to use the services of their attorneys, accountants, or other professional advisors.

EVANGELICAL COUNCIL
FOR FINANCIAL ACCOUNTABILITY
P.O. Box 17511
Washington, DC 20041-0511
Telephone: (703) 938-6006

Chairman **Pickle**. I thank you, sir.

Now, we will be pleased to hear from Mr. Richard Yao, the executive director of Fundamentalists Anonymous.

STATEMENT OF RICHARD YAO, ESQ., FOUNDER AND EXECUTIVE DIRECTOR, FUNDAMENTALISTS ANONYMOUS (FA), ACCOMPANIED BY JAMES J.D. LUCE, COFOUNDER AND ASSOCIATE EXECUTIVE DIRECTOR

Mr. **Yao**. Mr. Chairman, I am flattered that Jerry Falwell earlier said some things about Richard Yao and FA, and if you please, I would like to respond to some of those allegations before I make my comments.

I am very flattered that Jerry Falwell believes that my presence here today has sent shock waves through the world of TV evangelism.

TV evangelists who are clean have nothing to be afraid of; but TV evangelists who are guilty of abuses and misconduct should be afraid.

No one, Mr. Chairman, has ever stood up for the rights of religious consumers up until now. But the Fundamentalists Anonymous Legal Task Force intends to put an end to that situation. By the grace of God, and on my word of honor, we will relentlessly pursue the merchants and the money-changers and drive them out of the temple. And I invite all people of good will and conscience to join us.

Permit me to respond to Jerry Falwell's distortion about the fact that his claim that Fundamentalists Anonymous is anti-Christian. I have suffered these attacks at the hands of Mr. Falwell for the past 2 years and have had no recourse to respond to him, because he is on television, and I am not.

The truth of the matter is, Fundamentalists Anonymous, which was formed in April of 1985, is a support system for ex-Fundamentalists, for ex-Pentacostals, who want to voluntarily leave the fold.

In a short period of time, we have grown to become a national organization of over 40,000 concerned citizens, as well as former Fundamentalists and Pentacostals. We are not, Mr. Chairman, an anti-Christian or anti-Evangelical organization. That is simply not true.

FA has been endorsed by hundreds and hundreds of mainline Christian churches around the country. In fact, our national office works out of the basement of a mainline Christian church.

Jim Luce, the cofounder of FA, and my associate, and I are glad to report to you and to the public that we are church-going Christians—but we are not Fundamentalists. In Jerry Falwell's book, unless you are a Fundamentalist, you are not a Christian.

Jerry Falwell has also claimed that we have millions of dollars at a time where our budget was a mere fraction of that.

Another point I want to stress is that my comments, my statement, pertains to TV evangelists, which is the subject of our hearings today, and not to all churches. I believe, although there seems to be a lot of confusion among the part of TV evangelists who have testified earlier, that that is what we are concerned about today.

I would like to also mention the fact that the first amendment does not give anyone the right to impose a religious fraud.

Mr. Chairman, I am a graduate of New York University Law School. The U.S. Supreme Court has stated very emphatically that the first amendment does not give anyone the right to impose a religious fraud.

Today I am here speaking not just as the founder of Fundamentalists Anonymous; I am here speaking not just as the director of the FA Legal Task Force, which is the only legal task force fighting to protect the rights of religious consumers; not just as the head of an organization which has won the endorsement of hundreds of mainline churches across the country, but also as a church-going Christian who is appalled and distressed by the PTL/Jim Bakker scandal, which exposes the complete lack of accountability in the world of TV evangelism.

Recently, Mr. Chairman, I appeared on the Phil Donahue Show to announce that the FA Legal Task Force is available to help PTL lifetime partners who want their money back. Since then, we have received hundreds of pleas for help from desperate PTL lifetime partners across the country.

Permit me to introduce you to a few of those people who have come to us asking, pleading, for help.

Rose Brown, of Birmingham, Ala. is a PTL lifetime partner whose husband has been very ill and has incurred a lot of medical bills. She says:

> I can hardly make ends meet. It really hurts me that I do without essential things. Apparently, my money was used to have a high old time, and let someone else live in rich surroundings. I feel betrayed.

Sarah Lankford, of Gadsden, Ala., a 65 year-old widow, who receives $385 a month in Social Security. She is not in very good health. She is home a lot, and she watches a great deal of television.

Ruby Evans, of Philadelphia, Pa., retired. She had to get help from welfare to pay her fuel bill last winter.

Mrs. Bobbie Lee Holland and her husband, from Silver Springs, Fla. They had to sell a lot of household items to become PTL lifetime partners.

Donna Pierce, from San Antonio, Tex., spent $20,000 on 20 PTL lifetime partnerships. She is a widow. Her husband's life insurance is spent.

And the Reverend William Smith, a Church of God minister—and by the way, that is not a liberal minister—in Windsor, Pa. He and his wife spent $2,200 on two 1100 Club memberships from PTL. He says:

> I consider this to be a fraud. Jim Bakker should be penalized to the extent of the law, as he has intentionally defrauded individuals and has spent the money for other purposes, namely, himself.

Mr. Chairman, you have just heard the problem, and I could tell you about hundreds more if we had the time. It is obvious, however, that the people who are being taken for a ride, the people who are being ripped off, the people whose rights are being trampled upon by TV evangelists like Jim Bakker, are more often than not the elderly, the retired, the infirm and the poor.

I am sure, Mr. Chairman, that we have heard the TV evangelists and the National Association of Religious Broadcasters tell you that yes, there is a problem, but they can regulate themselves and clean their own house without the help of Congress, without the help of the IRS.

Well, Mr. Chairman, we have tried self-regulation before by TV evangelists. In 1979, in response to congressional and public pressure for accountability, Billy Graham founded the Evangelical Council for Financial Accountability, the ECFA. To be a member, one only needs to submit to very basic, very modest requirements, like the issuing of an independently audited financial statement and the maintaining of an independent board of directors.

The American public and Congress have patiently given this idea of self-regulation by TV evangelists 8 years to work. Unfortunately, the PTL scandal tells us it just does not work.

When the PTL scandal erupted recently, Mr. Chairman, none of the top 10 TV evangelists belonged to the ECFA. This is a devastating indictment against the idea of self-regulation, if you consider the fact that the top 10 TV evangelists reportedly account for approximately half the revenues generated by this multi-billion-dollar industry.

Pat Robertson, Jimmy Swaggart, Oral Roberts, all refused to join. Jerry Falwell initially joined but dropped out 2 years later. Jim Bakker, ironically, was one of ECFA's original members, but he left in December of 1986, after years of proudly displaying the ECFA's good housekeeping seal on his television show.

The fact that somebody like Jim Bakker——

Chairman PICKLE. Mr. Yao, let me ask you how much more testimony do you have?

Mr. YAO. Well, Mr. Chairman, I have sat through more than 6 hours of presentation by the TV evangelists, and if you could just bear with me, give me a few more minutes——

Chairman PICKLE. Well, Mr. Yao, I certainly want to do that, and I know Mr. Rangel does, too, and the other members. The same applies for Mr. Armstrong and Mr. Loux.

I am told we are going to have a vote on the floor soon, and I am just trying to ask how much more time you need.

Mr. YAO. Just 1 or 2 minutes.

Chairman PICKLE. All right. Go right ahead.

Mr. YAO. After 8 years, the TV evangelists and their trade association wants us to let them try the same old idea again. So instead of the ECFA, they have come up with the EFIC, the Ethics and Financial Integrity Commission.

Mr. Chairman, I submit that this new creature, the EFIC is the same paper tiger that the ECFA has proven to be. It makes a lot of noise; it has no real bite.

If Robertson, Falwell, and Swaggart can afford to ignore Billy Graham's ECFA, if they could do well without its good housekeeping seal, why should we believe that suddenly they will see a pressing need to adhere to this new code of ethics to gain this new housekeeping seal?

If we want to understand why accountability will not come from within the TV ministries, all we have to do is listen to Jimmy Swaggart, who said recently, "The board does not run this organization," he said, referring to TV ministries. "Legally, it has the final say. If it said no, you cannot build a Bible college, I could not build one. But do you know what I would do? I would fire the board, because I am the spiritual head of the organization. It cannot run without me."

Jimmy Swaggart is not alone. Recently, when it was revealed that Jerry Falwell has transferred over $6.7 million from his political arms to his religious ministries, Falwell responded:

> I think most people are giving because I signed the letter. They could care less if the project was being administered by whatever arms of the Jerry Falwell ministry enterprise.

If it is okay to transfer funds from political arms to religious arms, then what is going to prevent Jerry Falwell from transferring money from his religious arms to his political arms—which is, of course, what TV evangelist Pat Robertson has done in his quest for the Presidency.

Mr. Chairman, something has happened since Oral Roberts turned God into a spiritual terrorist. Something has happened since Peter Popoff was exposed as a fake faith healer. Something has happened since Pat Robertson funnelled millions of dollars from his religious ministry into his political arm. Something has happened since Jim Bakker diverted millions of hard-earned dollars meant to spread the gospel into hushing up a sex scandal and into subsidizing lifestyles of the rich and famous. And that something is a dramatic shift in pubic opinion on this issue.

People across the country, including millions of good Christians, are saying enough is enough. We have to make the TV evangelists accountable.

To increase accountability, the first step obviously is to enforce existing laws and regulations. It seems that the IRS has good reasons to take the advice of its confidential 1985 report recommending the revocation of PTL's tax-exempt status on the grounds that a substantial portion of its revenues go towards personally benefitting Jim Bakker, Tammy Bakker, and their staff.

Second, we should impose two minimum requirements on TV ministries which solicit contributions on the air if they want to maintain their tax-exempt status. First, public disclosure of audited and detailed financial statements for the past 5 years should be required. This means submission to full, independent, annual audits by certified public accountants and making them available to the public.

So far, Jerry Falwell's idea of detailed financial disclosure is a two-page financial summary that is not audited; the same for Jimmy Swaggart; the same for Pat Robertson.

Second, we must have independent governing boards for all TV ministries which solicit contributions on the air. Family members and insiders should not be more than one-third of the governing board of the TV ministry.

Mr. Chairman, we must do something, not only because public opinion now overwhelmingly favors it. We must do something because it is the right thing to do.

In the gospels, Jesus with great fury cast out those who sold and bought in the temple. He overturned the tables of the moneychangers and the seats of those who sold pigeons. God's house is a house of prayer, but they have turned it into a den of thieves.

Today, the merchants and the moneychangers have made their way back into the temple again. Today, they are preying upon the elderly, the poor and the infirm again. Today, God's temple cries out for cleansing from this great defilement.

Mr. Chairman, members of the committee, members of the American public, it is time to drive the merchants and moneychangers out of the temple.

Thank you, Mr. Chairman.

[The statement of Mr. Yao and a statement subsequently received from Mr. Luce follow:]

Statement by Richard Yao, Esq.
Founder & Exec. Dir.,
Fundamentalists Anonymous
before the
Subcommittee on Oversight, Committee on Ways and Means
U.S. House of Representatives
October 6, 1987

Today, I am talking not just as the founder and executive director of Fundamentalists Anonymous - a national organization of over 40,000 former fundamentalists, former pentecostals, and concerned citizens, not just as director of the F.A. Legal Task Force which is the only legal task force fighting to protect the rights of religious consumers, not just as a former fundamentalist, not just as the head of an organization which has the endorsement of hundreds of mainline Christian churches across the country, but also as a church-going Christian who is appalled and distressed by the PTL-Jim Bakker scandal which is reflective of the complete lack of accountability in the world of television evangelism. A scandal like PTL hurts not only TV evangelists, a scandal like PTL hurts not only pentecostal or fundamentalist churches, a scandal like PTL hurts all kinds of churches, all forms of religions. Today, Christ and Christianity are being crucified all over again by these false prophets and messiahs!

On June 16, 1987, I appeared on the Phil Donahue show to announce that the F.A. Legal Task Force is available to help PTL Lifetime Partners who want their money back. Since then, we have received hundreds of pleas for help from desperate PTL Lifetime Partners across the country. The letters tell stories of anguish, of betrayal and of shattered faith. The letters tell of the "little people" who have been trampled upon and hurt and who for the most part have been invisible to a media and a public caught up with the sensational details of the PTL scandal. The letters are an emotional flesh-and-blood definition of the problem we are considering today. Permit me to read you excerpts from a few typical letters.

From Larry E. Arwood of Memphis, Tennessee:
"I saw you [Mr. Yao] on the Donahue show....Let me tell you briefly what happened to me. Due to loosing (sic) my job and truck and home I found myself living on the streets with no one to help me. I thought because I had made donations [total: $1,889] to PTL and because they claim to help street people that they would help me. So I went to PTL in January of '86. They treated me like a criminal, or a dog, and they would not help me. They finally took me to the front gate and told me to stay off there (sic) property or they would have me put in jail. I know they have already filed for bankruptcy but is there anything I can do to recover this money or sue them for the way they have treated me."

From Rose M. Brown of Birmingham, Alabama, an excerpt from her two letters to PTL asking for a refund of the $1,000 she sent for her Lifetime Partnership:
"My husband has been very ill, resulting in medical bills, and my Mother passed away, causing the family to pool all assets in order to pay funeral expenses. I am in no way well-off. I live in a rented apartment and can barely make ends meet. It really hurts me that I do without essential things ....and apparantly (sic) my money, and that of many others was used to have a high old time, and let someone else live in rich surroundings.....It is not convenient for me to call the (PTL) office, and each time I make the time to do so, I just get a run around, and can get no clear cut answers. Please take time to write me a personal letter, explaining why things are as they are. I am tired of getting form letters that tell nothing....My intention at the beginning was to have a vacation place, where there was a Christian out look (sic), I fear now that the Heritage (Village) is failing, and I will never get a chance to see any of the return..... I feel that we, the public was used to further Jim & Tammy's high cost of living....I feel betrayed by the (PTL) ministry...I feel that you broke your contract when I received nothing for my amount of $1,000. I am in no way able to lose that amount of money.... I really need that money right now....I feel that you should not only repay my money but pay the interest that I have been paying on this debt for a year..."

From Nan Johnson, writing for her mother Sarah Lankford of Gadsden, Alabama:
"....About 3 weeks before the PTL scandal broke, [my mother] phoned in... $1,000 [for a Lifetime Membership]....Since all of this has come out about the misappropriation of [PTL] funds, my Mother has asked for my help. I have written numerous letters to [PTL] on behalf of my Mother.... PTL has never responded to me or my Mother..... I want to help my Mother because she lives on a limited income. She is 65 years old and only receives $385.00 in Social Security. Mother is not a religious fanatic but she is a widow and her health is not very good so she has to be home a lot and watches a great deal of TV."

From Ruby Evans of Philadelphia, Pennsylvania:

"I am retired and can't afford to go to South Carolina...I had to get help from Welfare to pay my fuel bill last winter...I think it is a mockery of all religion that the Bakkers have done this terrible thing. Why can't they be made to sell their worldly goods and bank account to make (us) poor, unfortunate people restore (our) faith in Christianity?"

From Helen Elis of Detroit, Michigan:

"I'm a widow, age 73, and I sent $1,000 for a lifetime membership thinking it would be a wonderful place to take my grandchildren. Now I doubt if I'll ever get my money back."

From Mrs. (Bobbie Lee) Holland of Silver Springs, Florida:

"(My husband and I) became partners by selling a lot of household items because we could not afford it, but we felt good about it because we really believed that we would be helping others even less fortunate than ourselves. Since this PTL scandal....we have been looking for some kind of legal action to obtain our money back - which we need far more than the Bakkers."

From Donna L. Pierce of San Antonio, Texas:

"Thank you...for your support of the PTL investors. I am one of the persons who invested heavily in .... PTL. I never intended that $20,000 to go to a 1,000% over-priced hooker or three millionaire mansions for Jim & Tammy .... I would like restitution and interest on the 20 lifetime partnerships I bought and put...in the names of my 4 children. The (lifetime) partnerships have been 5-6 times oversold and making reservations is a nightmare. Please include me in your class action suit. I am a widow and my husband's life insurance is spent."

From Rev. William C. Smith, Windsor Church of God, Windsor, Pennsylvania:

"My wife and I both have supported PTL on a monthly basis as a partner in the amount of $15.00. On Dec. 15, 1986 we sent $2, 200 for the purchase of two 1100 Club Memberships. Since that time I have called P.T.L. on the telephone and have written 2 letters but never receive a reply....Jim Bakker was selling 1100 memberships on the PTL television program. A membership entitled the person to stay at Heritage Village for 3 nights and 4 days the rest of your life - plus the use of various facilities at Heritage Village.....when I called on the telephone, the girl who answered could not tell me anything. I since wrote a letter and have never heard a reply. Since all the scandel (sic) at PTL - nothing is ever said on PTL television program about the 1100 club....I consider this to be a fraud ...[I believe] that Jim Bakker should be penalized to the extent of the law as he has intentionally defrauded individuals and has spent the 1100 club membership money for other purposes, namely himself as to all the accounts in the newspapers and television."

Mr. Chairman, you have just heard the problem. And I could read you hundreds more such letters if we have the time. It is obvious, however, that the people who are being taken for a ride, the people who are being ripped off, the people whose rights are being trampled upon by TV evangelists like Jim Bakker are more often than not the elderly, the retired, the infirmed and the poor.

I'm sure, Mr. Chairman, that you will hear the TV evangelists and the National Association of Religious Broadcasters tell you that yes, there is a problem, but they can regulate themselves and clean their own house without the help of the IRS or Congress.

Well, we have heard the promises of self-regulation by the TV evangelists before. And we have tried self-regulation by TV evangelists before. In 1979, in response to congressional and public pressure for accountability by the TV and radio evangelists, Billy Graham founded the Evangelical Council for Financial Accountability (the "ECFA"). To be a member of this "self-regulatory" group, a TV evangelist needs only to submit to very basic and very modest requirements like the issuing of an independently audited financial statement and the maintaining of an independent board of directors.

The American public and Congress have patiently given the idea of self-regulation by the TV evangelists eight years to work. Unfortunately, the PTL scandal tells us that self-regulation clearly does not work. When the PTL scandal erupted recently, none of the top ten TV evangelists belonged to the ECFA. This is a devastating indictment against the idea of self-regulation since the top ten TV evangelists reportedly account for approximately half of the revenues generated by this multi-billion dollar religious broadcasting industry. Pat Robertson refused to join. Jimmy Swaggart refused to join. Oral Roberts refused to join. Jerry Falwell initially joined but abandoned it two years later. Jim Bakker, ironically, was one of ECFA's original members but he left in December of 1986 after years of proudly displaying the ECFA's Good Housekeeping seal on his television show. The fact that TV evangelist Jim Bakker was considered a member in good standing of the ECFA for years despite his monumental abuses and financial mismanagement is the most damning evidence against the failure of self-regulation among TV evangelists.

Now eight years after the inception of "self-regulation", eight years after the dismal track record of "self-regulation", the TV evangelists and their trade association - the National Assocation of Religious Broadcasters (the "NRB") - want us to let them try the same old unworkable idea again. So instead of the ECFA, they have come up with the EFIC - the Ethics and Financial Integrity Commission of the NRB. They want us to believe that this "self-regulatory" commission will have real enforcement power because any TV evangelist who refuses to comply with its standards will be denied its Good Housekeeping Seal and perhaps eventually expelled.

Mr. Chairman, I submit that this new creature - the EFIC - is the same paper tiger that the ECFA has proven to be. It makes a lot of noise but it has no real bite. If Pat Robertson, Jerry Falwell and Jimmy Swaggart can afford to ignore Billy Graham's ECFA, if they could do so well without its Good Housekeeping Seal, why should we believe that the Pat Robertsons, the Jerry Falwells and the Jimmy Swaggarts of TV evangelism would suddenly see a pressing need to adhere to the EFIC's new code of ethics to gain its Good Housekeeping Seal of Approval? The reality is neither Jimmy Swaggart nor Pat Robertson nor Jerry Falwell needs the approval of the NRB or of its new code of ethics to do well in their business. This reality exposes the basic impotence of this new attempt at self-regulation and explains why it is doomed to failure from the start.

If we want to understand why accountability will not come easily from within the television ministries, all we have to do is listen to Jimmy Swaggart who in his epic arrogance gives us a sobering but honest insight into the realities of TV evangelism. "The board does not run these organizations," he says, referring to the TV ministries. "Legally it has the final say. If it said, 'No, you can't build a Bible college,' I couldn't build one. But you know what I'd do? I'd fire the board, because I'm the spiritual head of this organization. It can't run without me." (Time, 8/3/87) Mr. Chairman, the seven-member board of the Jimmy Swaggart Ministries is a farce. Out of the seven, four are from the Swaggart family - Jimmy, his wife, his son and his daughter-in-law. Then there is the lawyer for the Jimmy Swaggart Ministries and four clergy friends of Jimmy. Well, it really is all in the family. Even a Lee Iococca would be jealous of the absolute power that Jimmy Swaggart has over his $142 million a year empire.

And Jimmy Swaggart is not alone in his overreaching hubris. Recently, when it was revealed that Jerry Falwell has transferred over $6.7 million from his political arms - the Moral Majority and the Liberty Foundation - to his religious ministries, Falwell responded: "I think that most people are giving because I signed the letter. They could care less if the project was being administered by whatever arms of the Jerry Falwell ministry enterprise." If it is okay to transfer funds from his political organizations to his religious organizations, then what will prevent Jerry Falwell from transferring money from his religious organizations to his political organizations? Which is, of course, exactly what TV evangelist Pat Robertson has done in his quest for the presidency.

Mr. Chairman, it is almost amusing to see the NRB invoke "separation of church and state" since a significant number of its membership seems to agree with TV evangelist Pat Robertson that this constitutional doctrine is Soviet-inspired. When PTL refuses to honor its explicit commitment to PTL Lifetime Partners to provide three nights of free lodging every year for the rest of their lives at PTL's amusement park in return for $1,000, it has nothing to do with the separation of church and state or with the First Amendment but everything to do with breach of contract and with fraud and misrepresentation. When Pat Robertson funneled millions of dollars from his religious ministry into his campaign for the presidency, it has nothing to do with the First Amendment or separation of church and state but everything to do with the abuse of his tax-exempt status and with deceptive and unethical fundraising. The First Amendment does not give anyone a license to oversell a real estate "time share" scheme three or four times. The "separation of church and state" does not give anyone the right to abuse their tax-exempt status. And freedom of religion does not give anyone the privilege to prey upon the elderly, the infirmed and the poor.

PTL is not an aberration. PTL is the symptom of a pervasive cancer gnawing at the core of TV evangelism. Jim Bakker is not an aberration. Jim Bakker is one of the pillars of TV evangelism. He is the only TV evangelist who has played a major role in setting up the three largest "Christian" broadcasting networks in this country and in the world - Pat Robertson's Christian Broadcasting Network, Trinity Broadcasting Network and later his own PTL Network. The "700 Club", the cornerstone of CBN - the house that Pat Robertson built - was built with a lot of help from Jim Bakker.

Now there are some who would argue that the "mistakes" of PTL happen mainly because the people in charge are preachers and not businessmen or lawyers or accountants.

This defense might be persuasive for the many small non-profit tax-exempt groups out there which find it difficult to pay for a full-scale audit annually, or to pay for competent legal, business or accounting expertise that they need. But it is not a very persuasive defense for TV ministries which gross up to hundreds of millions of dollars a year and which can afford to hire the best business, legal and accounting expertise available in the world today.

Mr. Chairman, something has happened since Oral Roberts turned God into a spiritual extortionist and terrorist, something has happened since Peter Popoff was exposed as a fake faith healer, something has happened since Pat Robertson funneled millions of dollars from his religious ministry to his political arm, something has happened since Jim Bakker and the PTL diverted millions of hard-earned dollars meant to spread the Gospel into hushing up a sex scandal and into subsidizing lifestyles of the rich and famous - and that something is a dramatic shift in public opinion on this issue. People across the country, including millions of good Christians, are saying: Enough is enough. We have to make the TV evangelists accountable. TV evangelists have to play by the same rules as other non-profit tax-exempt groups.

To increase the accountability of TV evangelists, the first step is to enforce existing laws and regulations. At times, it seems to many of our members and many in the public that TV evangelists get more deference from Congress and the IRS than the average person who is trying to make ends meet.

The PTL scandal came as no surprise to the IRS. As early as 1981, the IRS had been investigating the PTL and its finances. In fact, a confidential 1985 IRS report recommended the revocation of PTL's tax-exempt status, retroactive to 1980, on the ground that a substantial part of PTL's revenues was personally benefitting the Bakkers and other top aides of the Bakkers. (Time, 8/3/87) Whatever has been holding back the IRS in the Bakkers/PTL case so far, the time for inaction has clearly passed. After all the shocking and outrageous revelations during the last few months, there is no doubt that a solid majority of the public will support the revocation of PTL's tax-exempt status. Such firm action by the IRS will not only be seen as a victory for justice, it will also serve as a powerful deterrent to future acts of abuses or misconduct by TV evangelists.

In addition to enforcing existing laws and regulations, the second step is to impose two minimum requirements on TV ministries which solicit contributions on the air in order to maintain their tax-exempt status.

First, public disclosure of audited and detailed financial statements for the past five years should be required of all TV ministries which solicit contributions on the air. This means submission to full, independent annual audits by certified public accountants. It means providing this full and detailed financial statements to the public. Such a financial statement should clearly show how contributions are spent and how much salaries and perks the TV evangelist and his family or top staff members receive. So far, Jerry Falwell's idea of detailed financial disclosure is a two-page unaudited financial summary. (Time 8/3/87) The same is true for Jimmy Swaggart who sends his donors a two-page unaudited financial report. Robertson has, for the first time, sent out a four-page unaudited financial summary to his supporters. Oral Roberts apparently does not even believe in two-page unaudited financial summaries. (Time 8/3/87)

Second, independent governing boards should be required of all TV ministries which solicit contributions on the air. This means that family members and insiders (paid staff) should not be more than one-third of the governing board of the TV ministry. Under this standard, Jimmy Swaggart's board will not do. Neither will Pat Robertson's board which consists of himself, his wife and three close associates.

These proposed regulations for TV ministries which solicit contributions on the air are fair and minimal because of the following reasons: 1) the medium of television has unrivalled access and awesome power in American society; 2) the people who are the most likely to contribute to TV evangelists - the elderly, the retired, the less educated, and the relatively poor - are the most vulnerable and the most in need of protection; and 3) the privilege of soliciting contributions on the air - an awesome privilege - should come with it certain basic responsibility and accountability.

I would like to emphasize that the standards we are proposing are in general already recognized as necessary by Billy Graham's Evangelical Council for Financial Accountability for eight years now. I believe most of the public would agree that these are the minimum standards required if we are to have a basic level of accountability for TV evangelists.

We must do something not only because public opinion now overwhelmingly favors firm action but because it is the right thing to do. In the Gospels, Jesus with great fury cast out those who sold and bought in the temple. He overturned the tables of the moneychangers and the seats of those who sold pigeons. God's house is a house of prayer but they have turned it into a den of thieves, Jesus pointed out.

Today, the merchants and the moneychangers have made their way back into the temple again. Today, they are preying upon the elderly, the poor and the infirmed again. Today, God's temple cries out for cleansing from this great defilement again.

It's time again to drive the merchants and the moneychangers out of the temple. If we don't, they will eventually stain every Christian church and undermine every religion in America. If we don't, they will continue to steal the poor blind and plunder the most helpless and needy. If we don't drive the merchants and the moneychangers out of the temple, we will each become an accomplice to their terrible crimes and abuses.

xxxx

(Special thanks to Mr. Donald Chase, Esq. and Mr. James J.D. Luce, F.A.'s co-founder and Associate Exec. Dir., for helping make it possible for me to deliver this statement before the Subcommittee and to the F.A. Legal Task Force for its untiring and first-rate labor in protecting the rights of religious consumers like the PTL Lifetime Partners.)

[THE FOLLOWING WAS SUBSEQUENTLY RECEIVED:]

Written Statement by James J.D. Luce
Co-Founder & Assoc. Exec. Dir.,
Fundamentalists Anonymous

before the
Subcommittee on Oversight, Committee on Ways and Means
U.S. House of Representatives
October 28, 1987

Dear Congressman Rangel,

As the co-founder and Associate Executive Director of Fundamentalists Anonymous (FA) and as someone who accompanied Richard Yao when he delivered his statement at the October 6, 1987 House Ways & Means Subcommittee on Oversight's hearing on whether TV evangelists are violating their tax-exempt status, I must inform you that my initial admiration for your incisive and balanced questioning disappeared because of your unexpected outburst in your questions to Richard Yao and Fundamentalists Anonymous (FA). Because of what I have heard about Congressman Rangel, I am still convinced that you were not malicious and that if you had been properly informed about Fundamentalists Anonymous and its work, you would have been very supportive of it. As things stand, I would like to answer your questions the way Richard Yao would have done if he had been given enough time to do so.

First, some basic facts about Fundamentalists Anonymous to clear up some of your confusion about what we do. In 1985, Richard Yao and I founded Fundamentalists Anonymous. The idea for the group was inspired by the difficulties Yao experienced in leaving his fundamentalist church and upbringing. After he successfully left the fold and went on to Yale, New York University Law School and a major New York law firm, Yao kept encountering people who were undergoing even more difficulties and trauma than he did after leaving this authoritarian, exclusive and all-pervasive lifestyle. Upon leaving the fundamentalist fold, many lost their best friends in the church who overnight shunned them and many were disowned or alienated from their own fundamentalist families. Yao began to realize that many ex-fundamentalists were suffering the same "withdrawal" that ex- cult members often experience. For the first few months to the first couple of years after leaving the fold, many experienced overwhelming guilt, fear, anxiety, chronic depression, low self-esteem, etc. (See FA booklet "There Is A Way Out".) In fact, such problems often persist many years after a person has left the fold. Looking back on his own experience, Yao realized how crucial the small group of non-fundamentalist friends (his de facto support group) had been in his successful journey out of fundamentalism. It gave him the idea for a national support system for ex-fundamentalists.

Fundamentalists Anonymous was formed for two purposes: 1) to provide a support system for ex-fundamentalists, adult children of fundamentalist parents and people with loved ones caught up in fundamentalism; and 2) to educate the public on how the fundamentalist mindset could be a mental health hazard to millions. After two years, we realized that many of the people coming to FA for help not only needed emotional support but also legal support. Thus the FA Legal Task Force was born as a project of Fundamentalists Anonymous. It was a natural extension of our support system.

Instead of defining fundamentalism theologically, we have found it more functional to think of fundamentalism as a mindset - one that is authoritarian, intolerant, compulsive about control; a black-and-white, all-or-nothing, us-against-them mindset. Defined thus, FA has members from the whole spectrum of fundamentalistic groups who have experienced the same difficulties. An important point: FA does not recruit satisfied fundamentalists. It does not believe in forcible deprogramming.

In less than three years, FA has grown to become a national organization with over 40,000 members in all fifty states. It has over 46 chapters and/or support groups around the nation. FA has been favorably featured on Nightline, NBC Evening News, ABC World News Tonight, Donahue, Oprah, Today, Good Morning America, CBS Morning Program, Sally Jesse Raphael and numerous other national and local TV and radio programs. FA has also been featured favorably in the New York Times, Newsweek, USA Today, NY Daily News, Newsday, Washington Post, Chicago Tribune, Philadelphia Inquirer, Atlanta Journal-Constitution, Dallas Times-Herald, Cleveland Plain Dealer, Miami Herald - just to name a few. Every indication is that Fundamentalists Anonymous is going to become as much a part of the American social landscape as Alcoholics Anonymous in a relatively short time period.

Now back to the hearing. Part of the problem, it seems, was that you were absent for most of Yao's preliminary remarks and statement. I am sure you had some very important task to attend to. But then again perhaps you were a little bored by all the TV evangelists and their apologists who had the gift of going on and on without saying anything.

I empathize because Richard Yao had to endure over six numbing hours of the TV evangelists and their apologists as they tried - unsuccessfully - to persuade us why, after the PTL scandal, we should still suspend our rational faculties and believe that they are perfectly capable of policing their own ranks.

By the time the F.A. Legal Task Force as represented by Richard Yao was to deliver its statement, the hearing room was almost completely empty. Most of the members of the subcommittee - including you - had left. The media people, eager to file their stories before their deadlines, had for the most part cleared out. And the gallery was just about empty too. As someone who had dealt with media in the past two years, I wondered if our time slot was accidental or intentional. If anyone had wanted the voice of the TV evangelists and the echo of their arguments to predominate on the evening news or in tomorrow's newspapers and to effectively muffle our testimony, this would have been the way to do it. At the same time, it could be claimed that an alternative voice or opinion was indeed permitted at the hearing.

The sad reality was that Richard Yao and the F.A. Legal Task Force was the only voice at the hearing speaking out for the victims of the TV evangelists. (The FA Legal Task Force is providing free legal services to PTL lifetime partners who want their money back. "Lifetime Partners" are those who had given $1,000 to PTL in exchange for three nights of free lodging annually for the rest of their lives at PTL's amusement park. Since PTL has refused to honor its legal obligations under this "time share" real estate scheme, these PTL Lifetime Partners - many of whom are elderly, retired, infirm and poor - are demanding their money back.) FA was the only group explicitly rebutting the TV evangelists' argument that they can police their own ranks. If the hearing was to have any semblance of fairness and balance, a group like ours would have to be heard. And that, I suspect, is why we were invited to be part of the hearing.

And yet, Richard Yao - the only voice speaking for the victims of the TV evangelists, the only person explicitly taking the TV ministers to task - did not get to testify until very late in the afternoon. As usual, the TV evangelists successfully hogged the podium and as usual the people who were trying to represent their victims did not get equal time. Not only was Richard Yao and the Fundamentalists Anonymous Legal Task Force consigned to a time slot that is the media equivalent of making a speech at midnight, he was also asked to cut short the reading of his prepared statement because time was running short. Unlike the TV evangelists who had more than ample time to make their case before and after their prepared statements, Yao was almost not allowed to read through most of his statement. So pressed was the subcommittee for time that Yao was not given any time to expand upon his position after he read an abridged version of his statement. Yao had wanted, for example, to point out why the First Amendment and separation of church and state were not issues here as the TV evangelists had claimed earlier. He was prepared to cite Supreme Court cases to back up his assertion that freedom of religion does not give a TV evangelist the right to impose a fraud on tens of thousands of people. But, unfortunately, he was not given any time to do so.

At this moment, after being absent when Yao was making his preliminary remarks and reading his prepared statement, you rushed back into the subcommittee hearing room to claim your seat again. And not realizing that we had just been told that there was not enough time to read our prepared statement completely or enough time for us to expand on certain points, you began to ask certain questions that even now perplex me and could be only explained by a lack of knowledge or confusion about Fundamentalists Anonymous and its work.

If I recall accurately, your first question pertained to our F.A. cable TV show. In your hasty reentry into the hearing room, you must have seized upon the F.A. newsletter that somehow found itself in front of you. On the front page of our newsletter was an article about our new cable-TV show. Who are we to point the finger at those poor TV evangelists like Jerry Falwell and Oral Roberts, you seemed to imply, when we ourselves are dabbling in a TV show. Well, there's TV shows and there's TV shows. Our TV program happens to be on public access stations. We do not pay for the air time. Our TV program happens to be taped in a very modest - almost primitive - studio. And our TV program has two formats - one a simulated support group meeting, the other a talk show format where former fundamentalists talk about their difficulties in fundamentalism and how they have successfully left the fold and carved out a new life. The purpose of this TV program is obviously to supplement the support system we are building for ex-fundamentalists across the country. There was an urgent need to provide support through this fledging TV program to former fundamentalists living in areas without F.A. support groups. And no, we do not solicit contributions over the air on this program! I am confident that you will agree that there is nothing inherently evil with the medium of television. The same medium used and exploited by TV evangelists like Jim Bakker could also be used by PBS for much good.

You then pressed Yao to reveal on national television the location of FA's national office which, by the way, is in the basement of a mainline Christian church in Manhattan. You heavily implied that his refusal to give this address over national television was a sign that F.A. had something to hide, or that it was a fly-by-night operation. There's a much simpler reason, Congressman Rangel. FA tries to keep its office location confidential because we have received serious threats from zealous fundamentalists who want us disappeared from the face of the earth. The kind of people who bomb abortion clinics are also the kind of people who do not like Fundamentalists Anonymous. If abortion clinics are considered a threat to these people, then why is it so hard to imagine that Fundamentalists Anonymous could be considered a threat - perhaps a much bigger threat? After all, Jerry Falwell has since 1985 put Fundamentalists Anonymous at the top of his hit list, ahead of such well-established groups like People for the American Way and the ACLU. And that very morning at the subcommittee hearing, Jerry Falwell went on an unrestrained diatribe against Fundamentalists Anonymous, angrily declaring that our presence at the hearing has sent "shock waves" through the world of TV evangelists and fundamentalism.

Fortunately for us who work with him, I know that Richard Yao is a risk-taker but he is not self-destructive. He is often willing to expose himself but he is not willing to unnecessarily and foolishly compromise the physical safety of FA's committed staff. As he pointed out, he could not find it in himself to require staff people who are paid a measly salary to unnecessarily expose themselves to physical danger and even death. Would you?

Despite this explanation, you were not satisfied. If we were really concerned about our security, you continued, why would we be testifying that morning in Congress on national television? My response to your question is simple: if we cannot be confident about our security in a nationally-televised congressional hearing, then God help us!

To quench your curiosity, Yao offered you a personal tour of our basement office but you have yet to take him up on it. I am sure you will find it very underfurnished and primitive. I am still wondering why all this explanation was somehow not enough to satisfy you when all the supposedly "cynical" and worldly journalists who know about our work and have passed through our basement office have not had any problems accepting our concern for security in the light of very serious threats?

Of course, all this time I was wondering if, in your hasty reentry into the hearing, you had forgotten what the subject of the hearing was. The hearings were triggered by the PTL scandal, not FA. The subject of the hearing, according to the official invitation from Congressman Pickle's office, was TV evangelists and whether they were violating their tax-exempt status. We came prepared for that. Naturally, since Yao was not given enough time to talk about the subject of the hearing, it was unfair and bizarre that you would ask him questions totally irrelevant to the hearing.

It was most disturbing that you were hurling questions pregnant with innuendoes at Yao and Fundamentalists Anonymous knowing that such questions could not be fully and fairly answered in the extremely hurried atmosphere that Chairman Pickle had explicitly informed us we were in. This is startling and disturbing because it does not conform to what I have heard about Congressman Rangel's sense of fair play.

The worst part of your questioning, however, insinuated that somehow we have not been adhering to the standards that we want the TV evangelists who solicit contributions over the airwaves to adhere to. Firstly, with all due deference, comparing FA to the giants of TV evangelism is hardly rational. We are talking about a group which in its first year raised less than $25,000 - less than what some secretaries make in New York City. To the best of my knowledge, we have raised at least $250,000 in our second year - progress, but hardly enough to fully respond to the demands being made upon us by tens of thousands of ex-fundamentalists around the nation. It is unfair to compare a group with a $250,000 budget with Jerry Falwell's $100-million-a-year organization or Pat Robertson's over-$200 million-a-year organization. More importantly, it is not fair to compare a group which does not solicit contributions over the TV airwaves with groups which do.

Despite this, the independent accounting firm of Weber, Lipshie & Co., 1430 Broadway, NY, NY 10018 is completing a full-scale independent audit of FA. Once completed, we will make our independently audited financial statement available to the public. After two and a half years, we are completing our first independent audit and are voluntarily disclosing it to the public. This is a far cry from the TV evangelists - many of whom have been in business for more than ten, twenty years and have yet to publicly disclose their first independently audited financial statement. If it were not for the PTL scandal and the enormous public pressure resulting from it, I doubt if most of the TV evangelists would even have gone through the motions of making available their very limited unaudited two-page financial summaries.

It must be pointed out that many non-profit groups with our modest budget find it difficult to pay for a full-scale independent audit. I do not believe in legally imposing this requirement on non-profit groups with a budget of under a million dollars who do not solicit contributions over the airwaves. But FA has paid for this independent full-scale audit on its own volition - a very substantial financial strain for our modest budget - because we want to practice what we preach and because we have nothing to hide. To insinuate otherwise is sheer slander and demagoguery.

You asked Richard Yao about FA's board of directors. Because of the lack of time, Yao was not able to list all the directors and their credentials. Here is our board of directors for 1987: Mr. Donald Chase, Esq., Litigation Associate, Morrison, Cohen & Singer, NY, NY; Mr. Toshi Iguchi, Vice President, The Daiwa Bank, Ltd., NY, NY; Lorie Hausman, former fundamentalist, Bogota, New Jersey; James J.D. Luce (on salary starting April 1987, Assoc. Exec. Dir.); Richard Yao (not on salary; Exec. Dir.).

And here, although you have not asked, is our Advisory Board:

1) Dr. G.W. Webber -
   President Emeritus, New York Theological Seminary, NY, NY;
2) Dr. William Sloan Coffin -
   Senior Minister, Riverside Church, NY, NY;
3) The Rev. Dr. Ruth Tiffany Barnhouse, M.D. -
   Professor of Psychiatry and Pastoral Care, Perkins School of Theology, Southern Methodist University, Dallas, TX;
4) Flo Conway, Ph.D. (communications science) -
   author of "Snapping" and "Holy Terror";
5) Jim Siegelman -
   co-author, "Snapping" and "Holy Terror";
6) Dr. Henry Coffin Everett III, M.D. -
   psychiatrist, Boston, Mass.;
7) Dr. Richard Childs, M.D. -
   psychiatrist, Kansas City, Mo.;
8) Dr. Donald Shriver -
   President, Union Theological Seminary, NY, NY;
9) Dr. David P. Osborn -
   Senior Minister, North Shore Unitarian-Universalist Church;
10) Dr. Roger Plantikow -
   Exec. Dir., Institutes of Religion & Health, NY, NY;

At the hearing, you pointed out that our newsletter asks people to become members or to contribute. Sure we do! PBS needs members and contributions. So does the Red Cross. So do organizations trying to find a cure for cancer, heart disease and multiple sclerosis. Fundamentalists Anonymous is no exception. I am sure you solicit contributions for your political campaigns too and that you are quite adept at it. The issue is not do we solicit contributions in our newsletters from the public. The issue is how do we solicit contributions as a non-profit group? I am glad to report that we have never sold a "time share" scheme where poor retired people on fixed incomes forked over $1,000 each and then refused to honor our obligations. I am proud to report that we do not promise heaven or threaten with hell - arguably a substantial handicap in fundraising.

And as to the approximately $250,000 that we have raised in our second year. I do not apologize for that. If anything, we apologize for not having done better! Groups like FA that are really doing good, that are protecting the helpless and defenseless, should have as much funding as they need. What kind of a social commentary is it if TV evangelists like Pat Robertson, Jimmy Swaggart and Jerry Falwell can raise hundreds of millions of dollars and groups like FA are not permitted to raise a paltry $250,000 - a fraction of TV evangelists Jim and Tammy Bakker's salaries?

If anything, Richard and I feel guilty about our inability to pay our hardworking and dedicated staff more than an average salary of $1,000 a month. Congressman Rangel, you know that's almost starvation wages in New York City!

In light of Falwell's big lie about how FA is an "anti-Christian" or "anti-religion" organization or movement, let me help you set the record straight. Although FA is not a front for any religion or church, we are not anti-Christian or anti-religion either. Richard Yao, the founder, happens to be a graduate of Yale Divinity School and an American Baptist. I was brought up an Episcopalian and am now a trustee in an American Baptist church.

Since the founding of Fundamentalists Anonymous, more than 400 mainline Christian churches and/or clergy around the country have come out and endorsed our work. Here are a few of them and what they say about FA:

Rev. Dr. John Killinger, First Presbyterian Church, Lynchburg, Virginia (the headquarters of Jerry Falwell's TV empire):

> "As a minister in Jerry Falwell's home town (and) as one who grew up in a fundamentalist church, I well understand the need for an organization such as Fundamentalists Anonymous."

Rev. M. J. Timbs, First Christian Church, Hot Springs, Arkansas:

> "As a supporter of Fundamentalists Anonymous and a Christian minister, I know that this group (FA) is in no way 'anti-Christian.' Rather, like the good Samaritan, it is attending to the casualties of fundamentalism and restoring them to wholeness."

Rev. Heslip Lee, Minister at Large, American Baptist Churches, U.S.A., Cedartown, Georgia:

> "I was born in, raised by and lived by the rules of a fundamentalist Baptist family in rural Georgia. My first memories of religion came from sermons against Jews, Catholics, Yankees, blacks and foreigners. I was taught [God] had a long, white beard, spoke English and was a Baptist. He would send you to hell if you weren't baptized in a running stream and didn't call yourself 'born again.' I broke the chains of fundamentalism and moved on to a larger Christian perspective, which provides me with the faith in a monotheistic God in a pluralistic society. Fundamentalists Anonymous helps thousands of people each month. I wish it had existed when I really needed it."

Rev. Jerry Shumm, First United Church of Batan Rouge, Louisiana (home of TV evangelist Jimmy Swaggart):

> "When I first heard of FA, I was delighted. Living in Baton Rouge has made me aware of the crying need for a nonjudgmental 'community' where people can untangle the web of guilt, worthlessness and isolation woven by fundamentalism..... Through FA, people can know that they are not alone."

The fact is anyone who is not a "born again" fundamentalist is not a Christian in Jerry Falwell's book. Roman Catholics and mainline Christians from denominations like the United Methodist, United Church of Christ, Episcopal, Lutheran, etc. are not only not really Christian, but really "anti-Christian" in Falwell's book!

Again, in light of what I know about Congressman Rangel, I am inclined to believe that your confused and misplaced outburst at the hearing was due to inadequate briefing by your overworked staff or to confusion about FA's work caused by your hasty reentry at the hearing. If not for my firm belief in your sense of decency and fair play, I would have to conclude that it was an irresponsible, slanderous and malicious assault on the only group that was speaking out for the interests of the public and the religious consumers at the hearing.

Now that FA has had the chance to respond to your questions, I hope we can all work together on this important issue in the future in a way that we can all be proud of.

At your service,

James J.D. Luce
Co-founder & Assoc. Exec. Dir.

FUNDAMENTALISTS ANONYMOUS
PO Box 20324 Greeley Sq. Station, New York, NY 10001 212/696-0711

IRS Form 990 Disclosure Information

1985-86
Fundamentalists Anonymous submitted Form 990 for the fiscal year 1985-1986 to the IRS as required by law. As the organization's total revenue for that fiscal year did not exceed $25,000.00, the obligation to file Form 990 extended only to notifying the Internal Revenue Service of that fact.

1986-87
Preparation of Form 990 for fiscal 1986-1987 is currently being undertaken by Weber, Lipshie & Co., Certified Public accountants (1430 Broadway, New York, NY 10018 (212) 382-3400). NOTE: In addition to preparing Form 990, we have elected to have Weber, Lipshie & Co. perform a full audit of our financial records. Promptly upon Weber, Lipshie & Co.'s completion of their work, a complete audited financial statement will be issued to the public, a measure much more rigorous than those required by federal rules regarding disclosure of financial information. It is the intention of Fundamentalists Anonymous to continue the practice of providing such statements to the public on an annual basis.

Chairman PICKLE. Thank you, Mr. Yao.

The Chair would want to ask questions of each of you. First, since Mr. Yao just finished, can you tell me, Mr. Yao, are you contending that the TV ministries are in violation of Federal law—with respect to the Tax Code. This committee is involved now in the question of their compliance with the Tax Code. Are you contending that the TV ministries are not in compliance with the Tax Code?

Mr. YAO. Well, some of them definitely do not seem to be. And I would like to stress that the first amendment does not give anyone to oversell a time share scheme three or four times. That is the kind of thing we are talking about.

The Supreme Court has been very clear that you cannot solicit contributions over the airwaves for a certain project, and then use it for something else. There is no protection from the first amendment for that kind of behavior. And that is the kind of behavior I believe, Mr. Chairman, that we are dealing with.

Chairman PICKLE. Well, is your testimony that EFICOM is ineffective and is not much different from the old ECFA that they had tried to put together?

Mr. YAO. I just cannot see any way that this new outfit will be more effective than the ECFA, because when the media coverage dies down, I suspect a lot of TV evangelists who are engaged in wrongdoing will revert back to the same old procedures.

And we have just got to try to do something, Mr. Chairman, to see to it that the elderly, the retired people, the sick and the poor people, who are the most likely contributors to TV evangelists, are protected, because those are the kinds of letters we are getting from those people.

Chairman PICKLE. Well, we do have a right to inquire whether the money that is contributed is being used for that charitable purpose for which it was given. To that extent, we have a right to hold the TV evangelists accountable for the money they receive. To the extent that they are not using money for charitable purposes, I think this committee or the Congress is entitled to look into that. It primarily would be the Internal Revenue Service, and I think they have been hesitant to do that.

Now, I am mindful that you have given us two recommendations to proceed to establish accountability. You would enforce the existing laws, and then you would also require public disclosure of audited and detailed financial statements of the last five years, and establish independent governing boards.

We will look at these statements and consider them, and we appreciate your statements on them.

Now, let me shift over to the ECFA and to EFICOM. You are two separate standards, two separate organizations.

Dr. Armstrong, your group has now passed a new board, new code of ethics.

Reverend ARMSTRONG. That is right.

Chairman PICKLE. Is this an improvement over the old codes? Did you have a code before, or did you just have a code that members had not fully agreed on?

Reverend ARMSTRONG. Yes, we had a code when we were organized in 1944; it was a generalized code of ethics. But we have now updated that as of last month, in view of the present situation, to make sure that there is accountability with respect to radio and television broadcasters who solicit money from the public.

Chairman PICKLE. Well now, are ministries like those of Jerry Falwell and Jimmy Swaggart members of your group?

Reverend ARMSTRONG. Yes, they are.

Chairman PICKLE. Are they members also of the ECFA?

Mr. LOUX. No, they are not.

Chairman PICKLE. Have they ever been a member of the ECFA?

Mr. LOUX. The Old Time Gospel Hour and Jerry Falwell were a member at the beginning and then dropped out after some discussions in 1981.

Chairman PICKLE. All right. Dr. Billy Graham belonged to ECFA. Does he still belong?

Mr. LOUX. Contrary to the description, it is not Mr. Graham's ECFA; there were members of his organization that were in on the founding of the organization, and he is still a member in good standing, as are Jim Kennedy, who testified this morning, and Dr. James Dobson, and a number of the other major radio evangelists.

Chairman PICKLE. So that we have two groups, and both of you contend that your standard is the best.

Do some of your members also belong to the other?

Reverend ARMSTRONG. Yes. Mr. Chairman, the NRB new code of ethics, called EFICOM, deals specifically with broadcasting. It deals with the area that you are studying now in your subcommittee. It deals with the religious broadcasters. It is not open to churches and schools and hospitals, but those who are in the area of religious broadcasting.

And this set of guidelines is similar to the guidelines of the ECFA, and basically, they are two comparable organizations. And our two organizations are working cooperatively; we are working together and will be meeting with the board of ECFA in just a few days, for the purpose of discussing how we can explore ways in which the two organizations can work together.

The difference is we are more specialized in the field of religious broadcasting, and the Evangelical Council is more generalized in the field of evangelical work at large.

Chairman PICKLE. Now, I do not think this committee is going to take a position as to which one is better, the NRB or the ECFA, EFICOM or ECFA. Both are commendable.

Reverend ARMSTRONG. No. We applaud the work of the ECFA and feel that we have a common problem that we are trying to address.

Chairman PICKLE. Well, are you trying to say you should achieve certain standards? Are you trying to advise them about their tax status? I presume you try to advise them about how to comply with the tax laws?

Reverend ARMSTRONG. Yes. We feel that——

Chairman PICKLE. And if you do that, then my question would be how do you—either one of you—draw the line to establish when compensation is excessive? What do you tell your members? What do you tell them as to what is private inurement? What do you tell them as to what is unrelated income? Do you advise them as to what these are?

Mr. LOUX. We have not established in the ECFA a particular ceiling that is a limit on salaries or——

Chairman PICKLE. Well, how do you handle it? If you advise them you have got to abide by certain standards, then you have got to tell them what those standards are. Now, I am asking you how do you establish the standards?

Mr. LOUX. As we have looked at the responsibilities of the organizations, it has been broader than just the salary or the personal inurement; but in that particular issue, we have been dealing with certain levels as we have advised these particular groups, but we have not established that they cannot pay over $100,000 or over $150,000.

Chairman PICKLE. All right. Suppose that they joined you, the ECFA, and they fell from grace because they did not abide by your standards. If they had to be mandatorily accredited to be in the ECFA, but they have not complied, do you then kick them out?

Mr. LOUX. Yes.

Chairman PICKLE. Remove their name from the list?

Mr. LOUX. We have a system whereby they can apply for review of our actions, but we have a separate standards committee from our board of directors that is made up of CPAs and lawyers; and then, if they have not met the compliance, as a number have not met, then they are relieved of their seal and must not use it any longer.

Chairman PICKLE. They are not members. All right. And I assume, essentially, Dr. Armstrong, your group would operate the same way—if they do not comply, or if they break your standards, then you will have a review, and if they cannot pass that review, then you would remove their name from the list.

Reverend ARMSTRONG. From the list of those who are accredited. That means that they cannot have the seal on their program.

Chairman PICKLE. Where is there any enforcement other than either you belong to your group or you do not belong to your group? Where is there enforcement as far as noncompliance with any tax aspect is concerned?

Mr. LOUX. In our public awareness campaign, we put in the major magazines a list of all of those that had complied with our regulations, and this is what brought the thousands of letters of response.

Chairman PICKLE. Well, do either of you contend that if a TV ministry belongs to either of your groups that that would excuse them from complying with the Federal Tax Code?

Mr. LOUX. Certainly not.

Reverend ARMSTRONG. No, that is not true. We suggest that they comply.

Chairman PICKLE. You hope they belong to your group. You think it is best because that is an assertion to the public. But still there is a need for the Government to say to the Treasury and to the IRS that the Tax Code is being complied with, or is not being complied with. Is that correct?

Reverend ARMSTRONG. That is correct. You are correct, Mr. Chairman.

Chairman PICKLE. So there is still a need. There is a need, then, for the Government through the Tax Code to at least look at the tax aspect by saying are you in compliance or are you not?

Reverend ARMSTRONG. That is correct.

Mr. LOUX. We would feel that the IRS form 990 is a minimal requirement that ought to be met by those that are operating in the public service.

Chairman PICKLE. All right. My time has expired.

Mr. Rangel, would you want to ask questions of the panel?

Mr. RANGEL. Yes. I would like to ask Mr. Yao, are you a national organization?

Mr. YAO. Yes, we are. We have members from all 50 States.

Mr. RANGEL. And where is your national headquarters?

Mr. YAO. Our national headquarters is in New York City, Manhattan.

Mr. RANGEL. What is the address?

Mr. YAO. Well, we cannot reveal that because we have gotten threats and harassing calls—but I could give it to you after the meeting, after the hearings—just so I could protect——

Mr. RANGEL. You mean that you are afraid your office will be harassed?

Mr. YAO. Well, we have received threats, yes, sir.

Mr. RANGEL. Well, how do you maintain yourself—on contributions?

Mr. YAO. We have over 40,000 members across the country, and they subscribe to our newsletter.

Mr. RANGEL. And how much do you receive annually from your subscriptions?

Mr. YAO. Well, in the first year——

Mr. RANGEL. No; just last year.

Mr. YAO. The subscription is $30——

Mr. RANGEL. No; how much money have you received last year?

Mr. YAO. In the first fiscal year, we received $20,000 in contributions; and Jim Luce, the cofounder, and I put in a lot of our own money into it.

Mr. RANGEL. How many employees do you have with your outfit?

Mr. YAO. Currently, I believe we have 16.

Mr. RANGEL. And do they work out of the same national office in New York?

Mr. YAO. Yes. It is in the basement of a mainline Christian church.

Mr. RANGEL. Are you a reverend?

Mr. YAO. No, but I can be; I have the credentials.

Mr. RANGEL. Do you have a church?

Mr. YAO. I graduated from Yale Divinity School.

Mr. RANGEL. Do you have a church?

Mr. YAO. No, I do not have a church. I went to law school and practiced in a Wall Street law firm after that.

Mr. RANGEL. What I am trying to determine—is this a nonprofit organization?

Mr. YAO. It is a nonprofit organization, yes.

Mr. RANGEL. What type—501(c)(3)?

Mr. YAO. 501(c)(3).

Mr. RANGEL. Do you file with the Internal Revenue?

Mr. **Yao**. Yes, absolutely.

Mr. **Rangel**. And you have what, 15 people on salary?

Mr. **Yao**. I believe it is 16.

Mr. **Rangel**. They all are on salary?

Mr. **Yao**. Yes. They are all paid something like an average of $1,000 a month in New York City which, as you know, is not much to go on in New York City. In fact, Jim Luce, my associate and cofounder, was unpaid until this past April.

Mr. **Rangel**. Well, did you found this group in order to expose the wrongdoing of TV evangelists, or are you watchdogs of religious groups generally?

Mr. **Yao**. Well, we have a couple of goals here. First of all, you have to realize that I grew up in the Fundamentalist church and realized how traumatic it could be to leave that kind of very strict, all-inclusive kind of environment.

Mr. **Rangel**. Is that the same experience your cofounders had—were you a Fundamentalist?

Mr. **Luce**. No.

Mr. **Yao**. He is lucky. He is a mainline Christian, always has been.

Mr. **Rangel**. So your background would not help me too much, since the cofounder does not have the same background. I want to find out what your mission is and what contribution you make.

Mr. **Yao**. The reason why his background and my background make sense is because we work not only with former Fundamentalists who are trying to get out of the fold voluntarily, but we also work with parents, spouses and relatives of those people who have Fundamentalist spouses and do not know what to do because their marriages are breaking up over the issue.

Mr. **Rangel**. That is a problem. But I do not see how you are able to take care of it. How much do you bring in annually to take care of these 15 or 20 people on payroll? What is your annual income, from whatever source?

Mr. **Yao**. Well, from our first-year income of $20,000 in contributions, we have gone to something like $270,000 in our second fiscal year.

Mr. **Rangel**. Is this your second fiscal year now?

Mr. **Yao**. It is our second fiscal year.

Mr. **Luce**. We have just finished our second fiscal year.

Mr. **Rangel**. And you get a quarter of a million dollars just through subscription to your paper?

Mr. **Yao**. We are beginning to get help from foundations, small foundations who believe in the work we are doing.

Mr. **Rangel**. Are you on television?

Mr. **Yao**. No.

Mr. **Rangel**. Do you plan to go on television?

Mr. **Yao**. That is why, Congressman Rangel, every time Jerry Falwell attacks us, we have no way of responding, because he is always on television, and we are not. And what we are trying to be is, aside from a support system, we are trying to be a watchdog group.

Mr. **Rangel**. Well, are you trying to get on television as a group? Are you trying to get your own show?

Mr. YAO. We are trying to get on Public Access. We are having a hard time. As you know, Public Access does not charge. And this is part of our educational campaign.

Mr. RANGEL. Would you solicit over the television?

Mr. YAO. We have never solicited over television.

Mr. RANGEL. But you just solicit through the newsletter?

Mr. YAO. That is our newsletter.

Mr. RANGEL. Do you have a board of directors?

Mr. YAO. Well, yes, obviously.

Mr. RANGEL. Well, I did not know. How many people are on the board?

Mr. YAO. Congressman Rangel, I have to ask one question. Is the subject of this inquiry FA, or is it the TV evangelists?

Mr. RANGEL. No. You brought up the question of ripoffs, and I want to give credibility to your testimony, so I have to know who is testifying. I have never heard of you or your organization.

Mr. YAO. We are very willing to provide you all that information——

Mr. RANGEL. Well, let me be honest with you, counsel, or reverend, or whatever you feel more comfortable with——

Mr. YAO. Richard.

Mr. RANGEL. I feel very uncomfortable with national organizations that cannot tell me where they are located; and I also feel uncomfortable with organizations that solicit through post office box numbers. But I do not mean to——

Mr. LUCE. Excuse me.

Mr. YAO. Jim Luce would like to respond to that.

Mr. LUCE. I would like to say that Richard Yao and I have received at this point over 100 death threats. We assume that these are from the "good Christians", quote-unquote, who claim that we are doing quote-unquote "Satan's work". We have received bomb threats——

Mr. RANGEL. Well, I hope you get proper security while you are here.

Mr. LUCE. We are not willing to risk our lives to do this work——

Chairman PICKLE. Excuse me. Would you identify yourself?

Mr. LUCE. Yes. My name is Jim Luce.

Mr. YAO. Jim is the cofounder of FA., and he works with us and knows what the situation is.

Mr. RANGEL. It does not appear to be that people who are afraid for their lives would be coming down here, getting on cable TV in the Nation's Capital, with all of this attention focused on you.

On the other hand, I understand, because I have been through all of this, and I am a New Yorker, and I know about post office boxes. And maybe when you feel secure enough——

Mr. YAO. I would be glad to give you a personal tour of our basement office, I promise—in fairness——

Mr. RANGEL. Well, in your newsletter, they said your national office is in your apartment in Brooklyn——

Chairman PICKLE. Neither one of you is listening.

Mr. YAO. I am sorry. In fairness to my staff——

Mr. RANGEL. In your newsletter, it indicated—and I want to believe your newsletter—that your national headquarters was located in your Brooklyn apartment.

Mr. YAO. It started in my Brooklyn apartment, yes.

In fairness to my staff, which I feel very guilty about paying them $1,000 at most in Manhattan, in fairness to them, I do not believe they have to be exposed to the threat of physical harm, even death, in order to do something for PTL lifetime partners. I do not think that is fair to my staff.

Chairman PICKLE. Mr. Rangel, thank you.

Mr. Armstrong and Mr. Loux, we have several questions that we want to ask of your organization. Dr. Armstrong, under EFICOM, we want to know what do donors have a right to know; what types of financial reporting and accountability are required; do you believe the IRS should routinely receive copies of these public reports; and if EFICOM accreditation would be mandatory, when does it become mandatory and a lot of questions like that.

We are going to submit these questions and similar questions, Mr. Loux, to both of you in the interest of time, and we will ask that you respond to them.

Before I quit, though, I want to ask you, suppose you have a member under question as to whether they are in compliance with your code, and you have determined that they are not, because of certain reasons. Now, you take their name off the list. Do you publish what the member did not do, what they failed to do, what has been their indiscretions or their violations?

Reverend ARMSTRONG. Yes. Our plan, Mr. Chairman, is to publish the names of those who are in compliance with our very strict code.

Chairman PICKLE. My question is if you have a person's name on there and show he is in compliance, and he has fallen from grace, then do you publish what he did to cause him to fall from grace, to be removed? Do you publicize the act, the fact of what has happened, or do you just put out a new list?

Reverend ARMSTRONG. No; we maintain a list of those who are in compliance, and our plan is to publish this list, and those who do not make the list, basically, are not listed, do not have the right to use the seal on their letterhead, and so on.

Chairman PICKLE. Well, if a person did not comply with your standards and did not file a form, or misled the public, or did something wrong, you do not publish what they did. You just take their name off the wall?

Reverend ARMSTRONG. No, we do not. We do not publish whatever problem they have.

Chairman PICKLE. Well, we are going to submit a series of questions. We have been at this a long time, and we have one more panel, and I am not going to continue.

I would hope that both of you maintain your very strong efforts to establish the best standards you can. I think it is needed; I think it would be helpful. You are to be commended for trying to force or encourage the TV ministers to join and I hope they do. Some of them today have testified they do not belong, because they do not believe that you have any enforcement powers, and they go beyond what you require, and that is a choice of each individual. I do not think we can say to a ministry, point a finger and say you are not a good TV ministry if you do not belong to NRB or ECFA.

Reverend **Armstrong**. That is correct.

Chairman **Pickle**. I would think the average TV minister would want to comply and say they do meet certain standards. But we are not trying to pass judgment. We are trying to find out how you operate and how it would work.

The only thing I want to say to you is that regardless of whether you have the strongest standards possible for either one of your organizations, I would want to make it clear that there is still a need for someone, particularly the Internal Revenue Service, to look over and see if you are in compliance with the Tax Code laws and the laws on unrelated business activities that have been on the books for decades. They have been tested in the courts. They are the law, and nobody contests them. We just want to be sure they are in compliance, and that is the sole purpose of this hearing. To the extent that you could encourage them to up their standards and participate and publish what to do, I think that will be good for everybody.

Reverend **Armstrong**. Mr. Chairman, that is very encouraging to us to proceed with our plans, and we appreciate your support.

Chairman **Pickle**. All right, we hope so.

Now, Mr. Yao, we appreciate your testimony. I take it in good faith, you are protesting what is going on. You gave many examples at the beginning of your testimony of where people have had trouble, and lost a job, and went to the PTL or went to these different groups for help, and it was not given to them.

Now, that may be factually an error on their part. It may or may not have happened just as it was reported to you. But, that does not have a specific bearing on the Tax Code per se.

We want to find out through your organization or anybody else if these ministries are not in compliance with the Tax Code. That is the purpose of this hearing. To the extent that you can comment further on that aspect of it, we will be glad to receive further information from you or from any others appearing here today.

Mr. **Yao**. Thank you.

Chairman **Pickle**. Thank you very much.

Now we will ask our good friend, Roscoe Egger, former Commissioner of the Internal Revenue Service, and a good one, if he will come forward to the witness table. And I understand he is going to have with him Mr. Michael Sanders, who is a professor at Georgetown University Law Center, and also a senior tax partner at a local law firm here.

Commissioner Egger, you appeared before this committee for 6 or 7 years or more, and always when you appeared first. You represented the authority. Now, today, you are out of office, and you are testifying last.

We did not do that just so you will know what it is like to come last, but the program was set, and we had thought we might move along a little quicker today.

But I personally appreciate it, and I know Mr. Rangel and the rest of the subcommittee members appreciate your willingness to stay here.

We look forward to your testimony, and we will examine it closely, because we want to hear from you and any other Commissioners, because it means a lot to us to know what you think.

I know you have heard all the testimony today because I saw you come in early. You have persevered the whole time. What do you think about the testimony, what do you think we should do, and what should we consider in this committee?

STATEMENT OF ROSCOE L. EGGER, JR. (FORMER COMMISSIONER OF INTERNAL REVENUE), PRICE WATERHOUSE, WASHINGTON, DC

Mr. EGGER. Mr. Chairman, first I want to congratulate you for having the courage to come in here and ask the hard questions. I know that is not easy to do; it is a very sensitive area.

But I have heard the testimony, and I am still persuaded, Mr. Chairman, that notwithstanding the fears expressed by some of the people here today about the abridgement or impairment of their first amendment rights, interference of the State with the activities of the church, and that kind of thing, there is in fact a law on our books known as the Internal Revenue Code. And it is not fair to the people in this country who pay their taxes to not have reasonable assurance that that law is being applied uniformly and evenhandedly across-the-board. They are entitled to know that the people who get some special benefits under the tax laws of the country are entitled to those, and legitimately so.

So it seems to me that the biggest problem here is the fact that the Service has a very, very difficult role to play in sort of guiding between the Scylla and Charybdis, if you will, and yet they are under severe restrictions in terms of the examination rules; the fact that the churches by and large do not have to file an application, they do not file reports on an annual basis. So the Service has to depend on publicity or some other kind of external information to begin the examinations. And then, even then, they are under a whole series of restrictions in doing that.

My belief is that—at a minimum—here is no reason at all why the churches in this country would not be willing to file an application or at least a report indicating where they are, how many locations, where they are organized, how they are organized, and who the principal officers are, and then some sort of periodic updating of that, including something about the kind of money that they are handling.

[The statement of Mr. Egger follows:]

Testimony of
Roscoe L. Egger
before the Subcommittee on Oversight
Committee on Ways and Means

October 6, 1987

Mr. Chairman, I appreciate the opportunity to testify today on the problems raised in the administration of the tax rules as they relate to religious organizations, and in particular, television ministries. Of course, this area has been the subject of a great deal of public focus over the last few months, and I expect that it will continue to be a major point of controversy in the future. In this regard, I would like to compliment the Chairman and the Committee for their willingness to ask the hard questions that need to be addressed in this area.

As you know, I served as Commissioner of the Internal Revenue Service from 1981 to 1986. During my tenure, the agency faced a number of difficult problems relating to the tax treatment of religious organizations. Unfortunately, this area is one in which the responsibility delegated to the IRS is great, but the corresponding authority and resources provided to do the job are limited.

I believe the Service does do a good job under current circumstances, but there are a number of restrictions -- in particular, legislative restrictions -- that severely limit the ability of the Service to do a more complete job in this area. I hope that this hearing will lead to a reexamination of some of these restrictions.

The very difficult questions regarding the operation of religious organizations fall to the Internal Revenue Service because of the extremely favorable tax treatment available to these organizations and persons associated with them. Churches are generally exempt from income tax and reporting requirements. Contributions to these organizations are generally deductible. Ministers and similar officials of religious organizations may qualify for special tax treatment relating to certain housing and other benefits.

The statutory authority for exemption is found in section 501 of the code. In order to be exempt, an organization must qualify under both the organizational and operational tests of the statute. The first test goes to the question of whether a particular institution is appropriately structured as a religious organization under the rules of the code. The second test goes to whether the organization's activities are primarily directed to accomplishing the goals which form the exempt purpose.

While I believe that there is an overwhelming consensus supporting the basic tax treatment extended to churches, it is clear that these tax benefits have attracted the attention of unscrupulous and fraudulent operators. I hasten to say, Mr. Chairman, that I do not intend any negative reflection on the churches and ministers that appear before this Committee, or on television ministries in general. However, my experience with the methods used by so-called "mail order" ministries leads me to believe that it is important to maintain an effective review process with respect to those who claim these benefits. The taxpaying public is entitled to reasonable assurance that those receiving these special benefits are truly entitled to them.

Here's an example of how the favorable tax treatment for churches becomes a tax administration problem. In the case of Basic Bible Church v. Commissioner, 74 TC 846 (1980), Mr. and Mrs. Duval and their daughter Misty organized chapter 4017 of the Basic Bible Church of America. Mr. and Mrs. Duval were the church's two ministers. Mr. Duval took a vow of poverty and then made a gift of all family's income and property to the church. The gift was conditioned on the church's receipt of tax exempt status.

As head officer of the church, Mr. Duval retained title to all the church's property. Mr. Duval filed a statement that claimed his salary was exempt from income and social security tax. Almost all of the church's receipts were paid out for the benefit of the Duvals. Only about one percent of the contributions were disbursed for directly related church purposes.

In this case, the court found that the church did not qualify under the operational test of section 501(c)(3) of the code. The organization failed to establish that it was not operated for the benefit of private interests. Because the case was litigated, the facts are in the public record. There are literally hundreds of other examples I cannot talk about because of the disclosure limitations of section 6103 of the code.

I raise this example because the potential damage to the tax system goes far beyond the revenue that may be lost from isolated individuals who claim the benefits of exempt organizations. Rather, this example is important because it strikes at the very integrity of the tax system.

As this Committee knows, this country benefits from a high rate of voluntary compliance with our tax laws. In fact, voluntary compliance is the key element in our tax administration system. I believe Americans will continue to meet their tax obligations as long as they feel that they are being treated fairly and that others are also paying their fair share. Examples of activities such as those of the Basic Bible Church undermine the irreplaceable ethic of voluntary compliance.

At this point, let me turn to the two very difficult issues that come before the IRS in this area. First, is the entity appropriately structured as a religious organization? And second, if it is properly organized, is the entity operated in accordance with the rules relating to such organizations.

The first extremely difficult task that has been delegated to the IRS is the job of determining what is -- and what is not -- a religious organization. The Service has no magic litmus test. They have only the statute. In making the determination of the organizations that qualify, extreme care and objectivity must be exercised to avoid any interference with first amendment rights. It is critical that the IRS remain absolutely impartial.

In order to qualify, a religious organization must meet two tests. One, the organization's practices or rituals must not be contrary to clearly defined public policy. For example, the IRS has denied recognition to organizations that claim to be churches but engage in criminal activity. Two, the religious beliefs must be sincerely held by those professing to follow them. Beyond these tests, no inquiry is made into the substance of the religious beliefs.

This two part test has been the subject of criticism by those who would like the IRS to make a more in-depth qualitative judgement about the organization's religious beliefs and principles. I believe that such a step would be a serious mistake. The Service is ill equipped to draw distinctions between which set of beliefs is a religion and which are not. Moreover, placing this kind of qualitative decision making in the hands of a government agency would raise severe Constitutional questions.

While the existing tests are not perfect, they represent the best solution to a problem that has no perfect solution. Consequently, this is not an area in which I would suggest increased discretionary authority for the Service.

If an entity is a church, the next question is whether the church's activities meet the requirements of the exempt entity rules. The statute requires that the entity must be operated exclusively for religious purposes, and that none of its earnings inure to individuals. The Basic Bible Church example that I raised earlier is a relatively easy question of inurement. But, in other cases, the problem is much more difficult.

In the case of television ministries, the inurement issue has attracted public attention, in part, because of the significant amounts of money involved. When you combine the total package of benefits which may include salary, lodging, food, travel, clothing, and other allowances, the amounts can become very large.

In addition to the general question of inurement, there is the related question of what constitutes reasonable compensation. In the case of television ministers, should reasonable compensation be measured against the income of the parish priest or a television celebrity?

There are no "bright line" tests here. Each case must be examined on its individual facts and circumstances. As a result, the cases are complicated, time consuming, and resource intensive. In order to make a well informed and well reasoned decision, a great deal of time and effort is required.

Barriers to more effective enforcement

With this background on the nature of the problem, I would like to turn to the tools that the IRS has to deal with the problem. A more appropriate characterization might be the lack of tools.

As I mentioned, the effective examination of a church is an extremely information intensive operation. Each case is weighed on its individual facts and circumstances. With these considerations in mind, it is important to consider the limitations on how the IRS can gather and use information.

Unlike non-religious entities, churches are entitled to exempt status without any requirement of filing a request for exemption. They are automatically exempt.

When other entities file applications for exemption, these applications and related materials are open to public inspection under section 6104 of the code. Because churches are excused from this general requirement, neither the IRS nor the general public knows who these organizations are or how many of them exist, let alone whether they are organized and operated under the rules of section 501(c)(3) of the code.

In a similar vein, non-religious 501(c)(3) organizations are required to file Form 990 annual information returns. Churches are exempt from this filing requirement. The information returns contain basic information that will help the Service determine whether the organization is meeting the operational test of the statute. For example, these returns require reporting on gross income, expenses related to income, disbursements for exempt purposes, and a balance sheet showing assets, liabilities, and net worth. These 990's are the principal mechanism the IRS uses to select non-religious organizations for examination.

I recognize that the special role of religious organizations in our society will require special rules. Consequently, I am not suggesting that religious organizations be subject to the same application and annual return requirements that other organizations must meet. However, if the IRS is expected to administer this area effectively, then it should have basic information on those organizations for which it has responsibility.

At a minimum, religious organizations should be required to file an initial or perhaps periodic statements containing basic information about the organization such as name of the principal official, address, and form of organization, etc. In addition, consideration should be given to requiring reporting of the kind of financial information that would assist the Service in reviewing private inurement problems.

Notwithstanding the minimal amount of information the IRS currently has concerning religious organizations, the Service does manage to operate an active and productive examination program. Examination leads come from a variety of sources, including public complaints, press accounts, and offshoots from other tax investigations.

When the media carry a story suggesting that someone is taking advantage of the exempt organization rules, there is often a predictable outcry from the public and even from the Congress asking, "Why isn't the IRS doing something about this"? In my experience as Commissioner, I found that very frequently the IRS was already dealing with the problem, but the rules regarding confidentiality of tax information prohibited the Service from commenting on the subject.

Examination rules

Finally, I would like to turn to one of the most troubling problems in this area -- the church audit rules. These rules often impose unreasonable restrictions on the IRS in those instances in which it is most likely that tax due is not being paid, or where contributors are being misled or duped.

In cases where the IRS receives information that suggest that an examination is appropriate, the Service then must run the gauntlet of the church audit rules. I do not intend go through the specific requirements of these rules. You have already heard from both the IRS and the Treasury on this subject. However, let me say that the rules form little more than a series of mechanistic tests and hoops for the Service to jump through. Unfortunately, the players involve regional commissioners, regional counsels, and other individuals who have many important and pressing demands on their time. In addition, some of the rules, such as the requirement to complete the examination within two years, pose unreasonable restrictions on effective enforcement activities.

I was Commissioner when these rules were enacted by the Congress. In large measure, the rules were adopted in response to a number of "horror stories" that the proponents of the legislation related to the Congress. As you know, the Service is generally precluded from releasing confidential tax information without the consent of the taxpayer, so only one side of the story was heard. Although there is an exception to these confidentiality rules for release of information to Congressional tax writing committees, in the case of the church audit rules, the proponents of the legislation declined to pursue this exception so as to bring out the full story in each case. As a result, we ended up with bad legislation based on an incomplete record.

While I completely agree that tax examinations of churches pose special considerations and should be subject to more stringent controls than ordinary examinations, the current rules weaken the ability of the Service to do its job in this area. I would recommend that this Committee reexamine the current restrictions and do so in an environment where both sides of the story are fully explored.

Churches and political campaigns

At the beginning of my testimony I suggested that this area would continue to generate controversy in the future. As the public memory of recent news stories fade, the even more difficult issue of church participation in both national and local politics will become more focused.

It is clear that as 501(c)(3) organizations churches may not "participate in, or intervene in ... any political campaign on behalf of any candidate for political office." But this line is frequently very difficult to draw.

Churches and politics go beyond questions of clergymen who are currently announced candidates for public office. For example, may a clergyman organize voter registration drives exclusively in areas known to be favorable to one candidate? May another clergyman speak from the pulpit and identify key issues such as a candidate's position on school prayer or abortion, when the candidates running clearly differ on these issues.

These are extraordinarily difficult problems and the IRS is in the unenviable position of being squarely in the middle. If the Congress has any answers here, I am sure that the IRS would be happy to have more clearly defined rules.

During the upcoming political campaign, this Committee should fully expect to hear a great deal of criticism of the Service's failure to police the political activities of churches. My only advice here is that if the IRS is being attacked by both sides, it is probably doing a good job.

Again, Mr. Chairman I very much appreciate the opportunity to be here today, and would be pleased to try to answer any questions the Committee may have.

Chairman **Pickle**. When you say "churches", you are talking about those who classify themselves as a "church," not as a religious organization or a 501(c), but just a "church"?

Mr. **Egger**. Well, most 501(c)(3)s have to file the 990 form annually. It is the ones who qualify as churches who are exempt from filing that annual report. That is the point that I was making.

Chairman **Pickle**. Yes, I know they are exempt from that, but I was trying to understand what you were saying. You said you did not see any reason why they would object to filing a report?

Mr. **Egger**. I see no really sound basis for objecting. I know that some of them will object to it, but I do not see that as infringing on first amendment rights to merely act that they——

Chairman **Pickle**. But will they operate satisfactorily in voluntary function? Could that work?

Mr. **Egger**. I do not think so. I think the ones that are trying to skirt the edges of the law would not volunteer anyway. So I just do not see that as being adequate. And the problem is much larger than TV ministries, Mr. Chairman. In my years in the Revenue Service, we had to deal very extensively with the so-called mail order ministries. We had thousands and thousands of cases of that every, single year. So that is how people who are unscrupulous will seek to take advantage of something that is a benefit in the tax law, regardless of whether they are entitled to it or not.

Chairman **Pickle**. You were Commissioner when apparently an Internal Revenue audit notice was sent, recommending the cancellation of PTL's tax-exempt status.

Mr. **Egger**. Well, Mr. Chairman, I have heard the testimony here, but I cannot comment on that because of the 6103 requirements, which I am still under.

Chairman **Pickle**. You could not if you were there, but since you are out, you still cannot testify.

Mr. **Egger**. I cannot talk about it now, because it took place while I was there.

Chairman **Pickle**. Well, I respect that.

We are trying to establish reasonable remuneration, reasonable compensation, reasonable salary which is always a generalization of salaries and depends on facts. How is the best way for us to handle that type of thing now? What is reasonable? Or, rather, what is excessive? What does the Internal Revenue Service look at as to what is excessive?

Mr. **Egger**. To tell you that it is a difficult issue is sort of gilding the lily, because you do not know whether to judge a television minister like a regular parish priest in my own church, or to judge him as a TV celebrity of some kind and pay them accordingly.

I have to feel that by and large, if the ministers are living lavishly and in the manner of extreme wealth and so on, that that obviously oversteps the bounds. I just think that one has to look at each of these things on the basis of what would the people who were making the contributions really expect that person to be doing; what would they sort of think is acceptable.

Chairman **Pickle**. Well, let me go on to Mr. Sanders, first, Commissioner, and then come back.

Mr. Sanders, would you like to make your statement?

STATEMENT OF MICHAEL I. SANDERS, ESQ., ADJUNCT PROFESSOR, GEORGETOWN UNIVERSITY LAW CENTER, AND SENIOR TAX PARTNER, GINSBURG, FELDMAN & BRESS

Mr. SANDERS. Yes, I would like to make a brief statement, if I could.

First, just by way of background, I am also a member of the Commissioner's Advisory Group on Exempt Organizations, and during my tenure at the Department of Justice in the midsixties, I litigated what is now considered the leading case on private inurement of income regarding tax exemption of churches and the activities of their founders.

What we see here today, listening to the testimony, I think it points up that many TV ministries are filing the 990s. There is no problem with those organizations. On the other hand, there are many others that are claiming to be churches or integrated auxiliaries of churches, and they are the ones that are not filing the 990s. So there is uneven reporting right now, and I think that is the issue that I would like to talk about for a few minutes.

Chairman PICKLE. Can you identify any of those?

Mr. SANDERS. Well, I think today in listening to the testimony, a number of the speakers here—Reverend Falwell, his organization was filing the 990, Reverend Roberts—many of the ministers indicated that their organizations are filing. The problem is that there are a whole lot of others out there that claim to be churches. They are not filing information with the IRS, so the IRS does not have the information and therefore is in a situation right now where they are being embarrassed, because everyone assumes that they are carrying out their responsibility to the public and to Congress, when in fact they do not know about many of the problems, because they do not have the facts.

Chairman PICKLE. Well, how do we remedy the situation where a lot of them out there are not filing these reports?

Mr. SANDERS. I think I have a solution that will work and be acceptable.

Chairman PICKLE. All right.

Mr. SANDERS. First, we need to define TV ministries—to define from the standpoint of the tax law what a TV ministry is, because it is a new type of organization. We have to understand how they compare to the neighborhood church. And what I am going to recommend would not reach the neighborhood church. It would not reach the established churches. They are doing what we, the public, have anticipated churches have done, and in effect are accountable to their congregations.

I think one distinction we have here is that TV ministries are quasi-public-type organizations. Their message is directed at the wide body of viewers. To the extent the viewers participate in the religious services, they do so in the isolation of their own homes, rather than participating in services in the physical context of a communal meeting.

TV viewers typically witness services conducted in settings more similar to commercial TV studios than the local churches that they attend.

So what we have here, when you understand exactly how these organizations work, you do not have the typical self-monitoring whereby the congregation can review the income and expenditures. This does not exist.

Significantly, the viewers do not have traditional means of access to the persons that administer these churches, and these people are typically not accountable to their congregation. So there is a lack of self-policing. That is how I would distinguish the local church from the TV ministries.

Now, let me make some recommendations as to how I think we can solve the problem in sort of a modified way.

I think we need a new reporting requirement to balance the Service's need for information about these ministries against the right of churches to freely practice their religion. And therefore I would recommend that this subcommittee consider working with the Service and with church groups to develop a middle-ground reporting system for quasi-public churches such as TV ministries, as well as their affiliated organizations that are otherwise not required to file 990s.

This type of reporting mechanism could request that the organizations provide limited information that would assist the IRS in monitoring compliance with section 501(c)(3).

For example, a new form could request information about the organization's income sources, such as income from public solicitation over the airways, receipts from the sale of admissions and goods, performance of services, and the furnishing of facilities—picking up the Theme Park income, for example. It could also pick up information about compensation and benefits provided to the founder or the trustees or the members of their families, and other pertinent information about the use of the organization's income and assets and its unrelated trade or businesses—in other words, a focused type of return.

In this way, the Service could have a data base of information with which it could exercise the third and I guess most important component, its auditing function. I do not think we need to require an application for exemption to be filed, but if we get annual information in a modified way—this type of modified disclosure by quasi-public organizations—you would not be reaching those 400,000 churches; you would be reaching a small, finite group of organizations out there such as TV ministries, that presently are not accountable to the public. And by filing this kind of information with the IRS, it would be available for public inspection. I think this is a way we can achieve an appropriate balance between competing legitimate interests of these religious institutions, the IRS, and the public.

And if you are interested, I would be glad to talk a little bit about inurement of income, commerciality, and trade or business of these organizations.

[The statement of Mr. Sanders follows:]

STATEMENT OF MICHAEL I. SANDERS, ADJUNCT PROFESSOR OF LAW, GEORGETOWN UNIVERSITY, PAST CHAIRMAN AND SPECIAL ADVISER TO THE EXEMPT ORGANIZATION COMMITTEE, SECTION OF TAXATION, AMERICAN BAR ASSOCIATION

Mr. Chairman and members of the committee, my name is Michael Sanders. I am a practicing lawyer in Washington, D.C. I have specialized in Federal tax matters for more than twenty years, first as a trial attorney with the Department of Justice, then with the Treasury Department in the Office of Tax Legislative Counsel, and since 1970 in private practice. During my tenure at the Department of Justice, I litigated what is now considered the leading case on the "private inurement of income" issue regarding tax exemption of churches and the activities of their founders.

I am past chairman of the Committee on Exempt Organizations of the American Bar Association. I am also an adjunct professor at Georgetown University Law Center, where I teach the law of tax-exempt organizations in the graduate tax program. In addition, I am a member of the Commissioner's Advisory Group on Exempt Organizations. In my experience as a practicing lawyer and professor in the area of tax exempt organizations, I have reviewed the statutory and judicial history regarding the treatment of churches, television ministries and their affiliated organizations.

I am testifying today in my individual capacity. A copy of my prepared statement has been submitted to the Committee and I request that it be made part of the record.

As the Chairman indicated in the announcement of this hearing, the focus should not be on the genuineness of the beliefs of any particular religion or church. Consequently, my comments will address issues concerning the Internal Revenue Service's (the "Service") ability to monitor the operations of television ministries and to determine whether tax-deductible contributions made to such organizations are used for religious purposes as required under Section 501(c)(3).

At the outset, I must emphasize that churches have certain fundamental rights by virtue of the First Amendment which entitle them to certain special protections in regard to government scrutiny of their activities. On the other hand, the government has a compelling interest in monitoring these organizations' compliance with Section 501(c)(3). We are here to consider whether the activities of so-called "television ministries" require the enactment of any new laws to enable the Service to more efficiently oversee this type of organization.

Television ministries present a new challenge to the Congress, the Service and the public at large. Traditionally, religious services are conducted in a church or synagogue, where the congregants participate in services with each other on a weekly or monthly basis. Congregants know each other as well as their pastors and ministers on a personal level; parishioners select their spiritual leaders. They monitor how their church is being administered and how their contributions are being utilized. This self-policing often acts to assure that abuses will not occur.

In contrast, television ministries are "quasi-public" in character. Their message is directed at a wide body of viewers. To the extent such viewers participate in religious services, they do so in the isolation of their own homes. Rather than participating in services in the physical context of a communal setting, T.V. viewers typically witness services conducted in settings which may be more similar to commercial T.V. studios than the local churches they attend. These services are often led by charismatic ministers who may resemble television entertainers as opposed to the down-to-earth ministers they are accustomed to seeing in their hometown parishes. Instead of sponsoring traditional religious services of one or two hours duration, T.V. ministries operate round-the-clock programming. Interspersed throughout this programming are repeated requests for contributions in a wide variety of forms. "Religious themes" are often presented in variety show format, as well as in cartoons for children.

More significantly, the relationship between T.V. viewers and their "ministers" is so remote that the traditional elements of self-monitoring and review of income and expenditures by the congregation are absent. The only information T.V. viewers obtain about their T.V. churches is the information given to them over the airwaves. Significantly, they do not have traditional means of access to those persons who administer the churches, nor are such persons accountable to them.

Religious organizations, including T.V. ministries, are required to operate in accordance with the same rules applicable to other Section 501(c)(3) organizations. Section 501(c)(3) organizations must be:

> . . . organized and operated exclusively for religious, charitable, scientific . . . or educational purposes, . . . no part of the net earnings of which inures to the benefit of any private shareholder or individual, . . . no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation . . . and which does not participate in, or intervene in . . . any political campaign on behalf of any candidate for public office. Section 501(c)(3).

The Service has three mechanisms by which it monitors compliance with the foregoing rules and obtains information about Section 501(c)(3) organizations -- the initial application process, annual information returns, and the audit program. The initial application and the annual returns inform the Service about the nature of an organization's activities, its income sources, and the manner in which its income and assets are expended. They alert the Service to areas which may require further examination in the audit process, which itself yields additional information.

However, Congress has accorded churches and certain church affiliates special treatment in all three categories, so that churches are not required to file exemption applications or information returns. Sections 508(c)(1)(A) and 6033(a)(2)(A)(1). Moreover, the Service's ability to audit religious organizations is subject to a special set of restrictions. Section 7611.

The recent press revelations about possible financial excesses at some certain T.V. ministries raise many factual issues about their compliance with the provisions of Section 501(c)(3), as well as the Service's ability to monitor their compliance. For example, are T.V. ministries operating exclusively for religious purposes, as churches are mandated to do, or are they really primarily commercial enterprises? Are the ministries promoting particular individuals as celebrities instead of promoting religion? To what extent are contributed dollars used for religious purposes as opposed to benefitting private individuals? How do we determine whether the compensation of T.V. ministry officials is excessive?

While I agree whole-heartedly with the propriety of certain special protections and procedures for religious organizations, we must also consider the government's compelling interest in assuring that tax-exempt income is used for religious purposes as well as the public's expectation that this is being done. I believe that there is an existing framework of law pursuant to which the legal issues relating to the operation of T.V. ministries can be analyzed. What is lacking, however, is the mechanism by which the Service can obtain the information it needs to properly exercise its oversight functions. I will discuss the details of these special procedural rules after describing the substantive rules governing Section 501(c)(3) organizations.

As stated above, the first standard which a Section 501(c)(3) organization must satisfy is that it is both organized and operated exclusively for one of the purposes enumerated therein, including charitable and religious purposes. In our discussions today, we are assuming that T.V. ministries meet the organizational test. An organization will be regarded as satisfying the operational test only if it engages primarily in activities which further one or more such purposes. Treas. Reg. Section 1.501(c)(3)-(1)(c)(1). Whether an activity is in furtherance of or substantially related to an exempt purpose is a factual determination. Treas. Reg. Section 1.513-1(d)(2). If the activity contributes importantly to the organization's exempt purposes (other than through the generation of income), it will be substantially related. Id.

If an organization operates an unrelated trade or business which constitutes more than an insubstantial part of its activities, the organization will fail the operational test. Treas. Reg. Section 1.501(c)(3)-1(c)(1). It will therefore be denied exemption upon initial application or it will be subject to subsequent revocation of its exempt status. If a particular trade or business is not a substantial part of an organization's activities, it will not jeopardize an organization's exempt status, but the income it generates will be subject to the unrelated business income tax of Section 511 if it is regularly carried on and not substantially related to the organization's exempt purposes. Treas. Reg. Sections 1.513-1(a) and 1.513-1(b). For example, the Service has ruled that the sale of greeting cards which display reproductions of art works from a museum's collection is substantially related to the museum's exempt purposes. Rev. Rul. 73-124, 1973-2 C.B. 190.

A seminal issue raised by recent press stories about certain T.V. ministries is whether or not they are in fact operated exclusively for religious purposes or whether the commercial nature of their activities is so pervasive that they can no longer be considered to be operating exclusively for charitable purposes. The variety show format of the programming, the sale of air time by religious broadcasting networks, the sale of a founder's products, and the promotion of T.V. ministers as celebrities in their own right highlight the potential commercial nature of T.V. ministries. Other projects of T.V. ministries, such as amusement parks, also raise the questions of commercialism, as well as the unrelated business income issue.

While some of these particular factual issues may be novel and challenging, there is an existing body of law pursuant to which the Service and the courts can analyze the issue of whether a particular activity conducted by a ministry is a commercial activity; whether such activities are so commercial and predominant that the organization is not operating exclusively for religious purposes; and whether the income from the activity is taxable unrelated business income. Thus, the Service and the courts can apply existing cases, Treasury rulings and regulations as well as other legal precedent to reach a decision on a case-by-case basis.

Similarly, there is well-established precedent on the prohibition of private inurement. That precedent applies to all Section 501(c)(3) organizations, including churches and T.V. ministries. The basic concept of private inurement is that Section 501(c)(3) organizations are accorded tax-exemption because they are organized and operated to benefit the public by accomplishing a particular charitable, religious, scientific or educational purpose, as opposed to providing benefits to particular individuals. Treas. Reg. Section 1.501(c)(3)-1(c)(2); Rev. Rul. 76-206, 1976-1 C.B. 154. In order to satisfy this provision, an organization must establish that it is not "organized and operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, director, or indirectly, by such private interests." Treas. Reg. Section 1.501(c)(3)-1(d)(1)(ii). For example, as the Tax Court determined in Church of Scientology of California v. Comm'r., 83 T.C. 381 (1984), aff'd, Church of Scientology v. Comm'r., 87-2 U.S.T.C. ¶9446, 60 A.F.T.R.2d 87-5386 (9th Cir., 1987), inurement can result from payment of excessive compensation to officers and directors, and the provision of excessive fringe benefits, as well as from the manipulation of an exempt organization's assets for the benefit of controlling persons.

One of the specific issues that has arisen in connection with certain T.V. ministries is whether some ministry leaders are receiving "excessive" compensation. The question of reasonable compensation is ordinarily determined based on all facts and circumstances, including the nature of the individual's responsibilities and a comparison of compensation paid to other persons performing similar duties. B.H.W. Anesthesia Foundation v. Comm'r., 72 T.C. 681 (1979); Jones Brothers Bakery, Inc. v. U.S., 411 F.2d 1282 (Ct. Cl., 1964). One of the problems in regard to the compensation of T.V. ministers is the identification of persons performing similar services -- should the compensation of T.V. ministers be compared to that of ministers in local churches as opposed to the compensation of T.V. entertainers? T.V. entertainers likely receive higher levels of compensation than do most hometown ministers, but using the compensation of T.V. entertainers as a guideline may imply that the T.V. minister's role is more commercial than religious.

These are obviously difficult factual issues, but they can be examined by the Service and the courts within the framework of existing law. Similarly, there is an evolving framework of legal authority upon which to examine the issues of lobbying and political activities by religious organizations and their leaders, so that political involvement by a TV minister can be resolved on the basis of facts and circumstances in each case.

Notwithstanding the foregoing, the existence of a definable legal framework is not sufficient in and of itself if there are insufficient facts upon which to base an analysis. This is the dilemma currently facing the Service -- it does not have adequate sources of information about certain religious organizations in general, and T.V. ministries in particular. The sensitive nature of the church-state relationship has led to the development of the aforementioned special procedures which protect religious organizations, but which may unduly restrain the Service in exercising its responsibility to make certain that they are complying with the requirements of Section 501(c)(3).

As stated above, churches are accorded special treatment in each of the three major aspects of the Service's administration of Section 501(c)(3) organizations: 1) the initial application process; 2) the filing of annual information returns (Forms 990 and 990PF), which provide the Service and the general public with financial and other information about the activities of exempt organizations; and 3) the examination program whereby the Service ascertains whether Section 501(c)(3) organizations are operating in compliance with the law.

First, churches are not required to request recognition of tax exempt status as are other Section 501(c)(3) organizations. Section 508(c)(1)(A). While some churches do apply for exemption to obtain particular benefits available to organizations so recognized by the Service, many do not. Moreover, many churches file an umbrella application for their affiliates so that individual churches need not file separate applications. As a result, the Treasury Department has little or no information about many churches and estimates that there are approximately 340,000 churches which do not appear in the Exempt Organizations Master File. (Statement of O. Donald Chapoton, Deputy Assistant Secretary (Tax Policy), Department of the Treasury, before the Subcommittee on Oversight of the House Ways and Means Committee, June 22, 1987, page 5).

Second, and most importantly, when Congress strengthened the general annual information return requirements for tax exempt organizations in the Tax Reform Act of 1969, it provided a statutory exemption for "churches, their integrated auxiliaries, and conventions or associations of churches." Section 6033(a)(2)(A). Moreover, pursuant to Section 6033(a)(2)(B), the Service has exempted additional church-affiliated organizations from the filing requirements so that only a small number of church-affiliated organizations are required to file Form 990 -- those church-affiliated organizations which are deemed to be "quasi-public." Treas. Reg. Section 1.6033-2(g)(1); Rev. Proc. 86-23, 1986-1 C.B. 564; Rev. Proc. 83-23, 1983-1 C.B. 687. Consequently, churches and many of their affiliates are not required to file Form 990, and thus have no obligation to report information about their income sources, their use of assets, compensation of their officers and directors, and their political and legislative activities. Without such information, the Service is placed at a disadvantage in seeking to determine whether there is compliance with the mandates of Section 501(c)(3).

Religious institutions justifiably maintain that they should not be subject to burdensome or intrusive reporting requirements. On the other hand, T.V. ministries, which are not subject to traditional self-policing protections, also have an interest in demonstrating to the public that they are properly using donations and administering their respective institutions for appropriate purposes. Indeed, many churches reported a widespread drop in donations after the PTL revelations, indicating the public's concern.

Traditionally operated churches which are controlled and monitored by their parishioners do not raise the same level of concern as do T.V. ministries and other "quasi-public" churches which raise millions of dollars from the public and are not accountable to the public or the Service.

In an effort to balance the Service's need for information about these ministries against the rights of churches to freely practice their religion, I would recommend that this Subcommittee consider working with the Service and church groups to develop a middle-ground reporting system for "quasi-public" churches, such as T.V. ministries, as well as their affiliated organizations that are otherwise not required to file Form 990. Such a reporting mechanism could request that such organizations provide limited information that would assist the Service in monitoring compliance with Section 501(c)(3). For example, the form could request limited information about the organization's income sources, e.g., income from public solicitation, receipts from the sale of admissions, goods, performance of services and furnishing of facilities; compensation and benefits provided to trustees, directors, officers and creators of an organization; the use of the organization's income and, assets; and the organization's unrelated trades or businesses.

With such a reporting requirement, the Service would have a base of information with which to exercise the third component of its monitoring function: its examination program. As it has done in the other two areas relating to the Service's oversight of churches, Congress has also established restricted rules regarding the Service's audit function pursuant to Section 7611. This Subcommittee will undoubtedly undertake to examine whether Section 7611 is working as Congress intended. It is apparent, however, that because of the severe limitations on information reporting by religious organizations, the Service has no reliable means of forming a reasonable belief as to whether a T.V. ministry has violated Section 501(c)(3), thereby satisfying the statutory threshold required to initiate an audit under Section 7611. Absent this information, the Service cannot presently avail itself of even the restricted audit mechanism of Section 7611.

Modified disclosure would correct this problem and provide the Service with the information it needs to investigate potentially abusive situations. I believe that T.V. ministries and other "quasi-public" religious organizations would welcome the opportunity to demonstrate that donated funds are being used for religious purposes. In addition, this disclosure should help restore the public's confidence in the Service's enforcement functions. In my opinion, a new reporting mechanism will strike an appropriate balance between the competing legitimate interests of religious institutions, the Service, and the public.

Chairman **Pickle**. I am interested in knowing more about how you would handle this problem, if you would call it. I have a copy of your testimony, and I have not been able to follow. Also, I have not been able to hear you as well as I would have liked to, Mr. Sanders.

But let me ask you, when you say these television ministers are quasi-public, would you handle them differently than they are being handled now?

Mr. **Sanders**. What I would do is, those organizations that are not presently filing the 990—that is, they are claiming to be churches or auxiliaries of churches—respecting their first amendment rights, I would ask them to file a modified return. Now, these are the quasi-public-type organizations, and the definition of quasi-public would have to be worked out with the IRS and with this committee. But I think we can narrow the definition to reach the type of organizations that are not presently accountable to their congregations, that are raising substantial funds through the airwaves. And that is the point. And once the IRS has this information, they can then trigger their audits a lot sooner, so they will not be subject to criticism.

Chairman **Pickle**. Well, one of the big problems the Internal Revenue Service is bound to be faced with is that they do not have a lot of information to pass judgment on an organization. Whether they are a church or not a church; if they do not have any information they cannot very well audit something.

So I think that there is a necessity of getting more information. We are just trying to figure out how to do it.

I have run over my time a little bit, so Mr. Rangel, let me recognize you at this time.

Mr. **Rangel**. Thank you, Mr. Chairman.

Mr. Sanders, I know you are testifying in your individual capacity, but what are the chances of getting the American Bar Association to support the position that you have taken here?

Mr. **Sanders**. I would be pleased to discuss that with the present chairman of the exempt organizations committee; and I would think that they would be very interested in this position.

[The following was subsequently received:]

LAW OFFICES
GINSBURG, FELDMAN AND BRESS
CHARTERED
1250 CONNECTICUT AVENUE, N. W.
WASHINGTON, D.C. 20036
TELEPHONE (202) 637-9000

TELEX 4938614
CABLE "LEGIS"
TELECOPIER (202) 637-9195

CORRESPONDENT OFFICE
1, AVENUE FRANKLIN D. ROOSEVELT
75008 PARIS, FRANCE

DAVID GINSBURG
MYER FELDMAN
J. W. ROSENTHAL
E. WILLIAM HENRY
LEE R. MARKS
JOHN H. ZENTAY
MARTIN JACOBS
JAMES E. WESNER
FRED W. DROGULA
MICHAEL I. SANDERS, P. C.
JOEL S. BURTON
JAMES HAMILTON
MARY HELEN SEARS
ALFRED J. EICHENLAUB
MORTON S. TAUBMAN
ALAN S. WEITZ
ANDREA JILL GRANT
PATRICIA H. BLAIR
MARTHA JANE SHAY
GARY J. KLEIN
ROBERT W. HAWKINS
CELIA ROADY
BRUCE H. RABINOVITZ
JONATHAN GINSBURG
HARVEY J. SHULMAN
IRA T. KASDAN
SAMUEL H. BLACK
PETER M. KIRBY
EDWARD J. TOLCHIN

DAVID G. BRESS (1908-1976)

OF COUNSEL
SHIRLEY Z. JOHNSON

JANELLE S. STRASSHEIM
JAMES E. McNAIR
JOSEPH B. HOFFMAN
CRAIG A. EMDEN
JERALD PASTERNAK
N. LINDA GOLDSTEIN
GAYLE FORST
JOHN C. GRABOW
LYNN BONDE
MADONNA A. McGWIN
TIMOTHY J. JESSELL
LIANA GIOIA RAMFJORD
SETH A. ROSENBLOOM
SHAUNA MILLER WERTHEIM
JON L. ROBERTS*
KATHARINE H. KING*
JOHN N. BRANDOLINO*
JOHN P. MIHELCIC*
MICHAEL R. BENNET*
MICHAEL D. WHITE
W. RICHARD MASON*
D. MARIE WAGNER*
DAVID S. TATGE
JOHN J. MATTEO

JEFFREY A. MANLEY
DANIEL P. HOGIN
MOSHE SCHULDINGER

*NOT ADMITTED IN D.C.

WRITER'S DIRECT DIAL NUMBER
637-9110

November 3, 1987

VIA MESSENGER

The Honorable J. J. Pickle
Chairman
Subcommittee on Oversight
U.S. House of Representatives
1105 Longworth House Office Building
Washington, D.C. 20515

The Honorable Congressman Charles B. Rangel
2330 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Pickle and Congressman Rangel:

At the October 6, 1987 Subcommittee hearings on television ministries, Congressman Rangel asked me whether the Tax Section of the American Bar Association would consider endorsing the legislative changes I proposed in my testimony.

In response to Congressman Rangel's inquiry, I corresponded with Marion Fremont-Smith, Vice Chair of the A.B.A. Exempt Organizations Committee. By letter dated October 27, 1987, Ms. Fremont-Smith informed me that she has discussed the issue with Charles Hall, Chair of the A.B.A. Section of Taxation; a copy of that letter is enclosed. As Ms. Fremont-Smith's letter indicates, the Tax Section will provide a formal response to Congressman Rangel as soon as it has considered the matter.

The Honorable J. J. Pickle
The Honorable Congressman Charles B. Rangel
November 3, 1987
Page 2

Please contact me if I may be of any further assistance. Thank you again for inviting me to testify.

Sincerely,

Michael I. Sanders

MIS:dat

cc: Marion R. Fremont-Smith, Esquire
Vice Chair, Exempt Organizations Committee
American Bar Association

Charles N. Hall, Esquire
Chairman, Section of Taxation
American Bar Association

Marjorie O'Connell, Esquire
Council Director
Exempt Organization Committee
American Bar Association

Russlyn Landers Guritz, Esquire
Committee on Ways and Means
Subcommittee on Oversight
U.S. House of Representatives

G. d'Andelot Belin
Wilmot T. Pope
Rhodes G. Lockwood
Jeptha H. Wade
Will J. Bangs
James C. Heigham
Robert M. Gargill
Andrew L. Nichols
Thayer Fremont-Smith
Mark A. Michelson
Weld S. Henshaw
Marion R. Fremont-Smith
Carla B. Herwitz
[illegible] P. Roberts
Frank B. Porter, Jr.
John R. Walkey
Kenneth Laurence
Robert S. Frank, Jr.
Donald L. Connors
Kennett F. Burnes
Boardman Lloyd
Allen M. Bornheimer
Edward F. Hines, Jr.
F. David Dassori, Jr.
Jeffrey L. Reidy
Joseph E. O'Leary
Paul W. Allison
Thomas F. Maffei
Gordon H. Silver
Peter A. Fine
Michael A. Austin
John M. Cornish
Robert Rothberg
Samuel B. Bruskin
Howard J. Levitan
Roslyn G. Daum
Larry C. Renda
Stephen R. Pino
Myra J. Green
John A. Nadas
Mitchell H. Kaplan
John R. Ossenmacher
A. Hugh Scott
James A. McDaniel
Kevin P. Light
Thomas H. P. Whitney, Jr.
Dale A. Linden

CHOATE, HALL & STEWART
EXCHANGE PLACE
53 STATE STREET
BOSTON, MASSACHUSETTS 02109
TELEPHONE (617) 227-5020
TELECOPIER (617) 227-7566
TELEX 230074

CHARLES F. CHOATE, JR.
1899-1927
JOHN L. HALL
1899-1960
RALPH A. STEWART
1904-1926

OF COUNSEL
Nathaniel T. Dexter

Lewis G. Pollock
Kathy A. Faulk
Joseph T. Bartlein

October 27, 1987

Michael I. Sanders, Esquire
Ginsburg, Feldman and Bress
1250 Connecticut Avenue, N.W.
Washington, DC 20036

Dear Mike:

My apologies for not answering your October 7, 1987 letter sooner. I have been away and only now have had a chance to write. Let me first commend you for your statement. It is an excellent summary of the issues, the present difficult situation, and the obvious need for a change.

My initial reaction is that this would be a most appropriate subject for our Committee and I am taking the liberty of sending your letter and statement immediately to John Stophel who heads our Subcommittee on Religious Organizations. You should be encouraged to know that I have heard from Charles Hall asking for my recommendation and I will send a copy of this letter together with my direct response to him. I will also ask John Stophel to call you. If you would be willing to assist his Committee we would be most grateful. Finally, I know that a response to Congressman Rangel should be framed and, once I have sorted out the necessary steps within the Tax Section, I will see that that is done.

Sincerely,

(Mrs.) Marion R. Fremont-Smith

MRFS:pjd

cc: John C. Stophel
Charles W. Hall
Marjorie A. O'Connell
Richard S. Gallagher
Joseph E. Lundy
Thomas D. Terry
Christine A. Brunswick
Sharon W. Potter

Mr. **Rangel.** The reason I ask that is it is just that common sense dictates that it is not violative of any constitutional right to ask any church to file some statement with the IRS so that their contributors can receive tax exemption. But I think, Mr. Egger, you would agree that any time you have to congratulate the chairman just for looking at it, and he has not really performed any profile of courage, it must mean that this is a very sensitive political issue. Even the administration was mumbling about what they needed.

So it seems to me that we are going to have to have some responsible people indicate that not only do we need the statement, but we also need some type of commitment from the IRS that they are going to enforce the laws that are on the books, because before Tammy Bakker, we have had big problems with ripoff artists using God and the television, and yet we do not see any indication from the IRS that they have enforced the law with the 990.

I mean, they seem to just resist going into this area until they actually are pushed into it by a media expose, and where the Congress is forced to respond to see whether the laws are being applied. But if we have a half million churches, and we have just 25 investigations in the last 2 or 3 years, I get the impression, Commissioner, that this area is off-limits for the Congress and for the Service.

Mr. **Egger.** I think, frankly, you have a point, but I also think that for one, the IRSs' resources in this particular area are woefully inadequate. They just do not have enough examiners in the field to carry out an extensive examination of the hundreds of thousands of exempt organizations, apart from the religious organizations, churches, et cetera.

Second, I do think that probably when a story like PTL breaks in the press, people say, you know, "Well, where was the IRS?" And it may very well be that the IRS had been in there a long time before that story broke, and——

Mr. **Rangel.** It may be, but there is no evidence in this administration to support that.

Mr. **Egger.** Well, but under 6103, they could not talk about it even if it were true; that is the point.

Mr. **Rangel.** Well, let us say this, that it seems to me that what makes a voluntary system effective is at least the deterrent of knowing that somebody, somewhere, is going to be investigated. And I really do not see where there is any threat of being investigated whether you file or whether you do not file.

On the other hand, I cannot think of any reason why a church should file. What benefits would a church get by filing, when they get all of the benefits without filing?

Mr. **Egger.** Obviously, the purpose of requiring the filing is not to benefit the church as much as it is to make the system work properly.

Mr. **Rangel.** But the church is not filing to make the system work.

Mr. **Egger.** Well, it gives information, a data base, to the IRS with which they can then put together a reasonable examination program, instead of just having to do it by hit or miss.

Mr. **Sanders.** There are advantages to many churches to have a 501(c)(3) letter from the IRS, because then they are listed in publication 78, and a number of things follow from that, and it helps them in attracting contributions. So there are advantages to many churches to actually go through the filing process.

Mr. RANGEL. Well, all hell is going to break loose if this Congress starts talking about mandating that churches file, and on this committee that is trying to reach a middle ground with the churches, you are going to recommend to them that they voluntarily reach some middle ground and just file a paper with the IRS?

Mr. SANDERS. What I am recommending as a solution is a middle ground, that not all churches file, because there are 400,000 churches, and I respect their first amendment rights. I am saying that——

Mr. RANGEL. Do you mean you think it is violative of first amendment rights for a tax-exempt church just to file a statement of how much money they got in, and——

Mr. SANDERS. No, I do not say that. But I recognize the sensitivity. And so what I am recommending is a modified return that only would need to be filed by certain quasi-public organizations that claim to be churches or auxiliaries of churches, that would pick up the TV ministries. And that would only reach a relatively small number of organizations. And I think the IRS needs to have this information; I think the public should know that the IRS has the information so we do not have a debacle——

Mr. RANGEL. Why are you just picking on one group of churches? Why don't you just make it universally, so it does not look like the Government is favoring one church group over the other?

Mr. SANDERS. Because I do not think we have enough information at this point that would suggest that a wide, large number of churches in this country are violating the rules.

I think we do have information that has been discovered through the press that a small group, a new type of organization, the TV ministries, need to be looked into, and a lot sooner; we must expedite that kind of review.

Mr. RANGEL. Well, Counsel, I do not believe that just filing is an indication that you think that they are violating the rules. I just think that if your contributors enjoy the privilege of tax deduction, that you are not calling them crooks by simply saying file a statement. So I do not look at it as a negative thing. I would like to know, how many churches do we have; how can we protect them, how can we protect them; how we can identify the ripoffs so we can take care of them and give more time in supporting maybe larger deductions for charitable organizations and legitimate churches.

But that is not how it is going to be perceived, I know.

Thank you, Mr. Chairman.

Chairman PICKLE. Mr. Egger, I have a couple questions, and then I want to make a statement for the record—and I am sorry that one of the previous witnesses who testified has already left. I will ask if he is here in just a second.

But first, Mr. Egger, how does the Internal Revenue Service, you have been there, and you have served as Commissioner, determine when compensation paid to a TV minister is reasonable and not excessive so as to constitute private inurement or private benefit?

What does the IRS use as a measurement?

Mr. EGGER. It uses as a benchmark the comparability of what would other people in similar circumstances be earning or be paid.

Chairman PICKLE. Well, should the minister's income be compared to the income of other ministers, or corporate executives or entertainers?

Mr. EGGER. I would think that you could certainly look at very large ministries such as bishop of a large diocese and things of that kind, to see——

Chairman PICKLE. And compare it with other ministries?

Mr. EGGER. Right, I think so. I think you have to look within that grouping. You do not look at the million dollars that some TV personality gets paid, recognizing that, presumably at least, they are not there because of their personality, that they are there as a minister and for that purpose.

Mr. SANDERS. Can I comment on that point?

Chairman PICKLE. Yes, you may.

Mr. SANDERS. As a trial attorney, I think this is probably the most difficult aspect of these TV ministries in trying to evaluate whether or not there is private benefit. I do not think the standard—we know this is a new type of case; it is one of first impression—I do not think we really have a standard. And I think the lawyers representing these ministries are going to argue that they play a very special role on television, and that you have got to look at TV anchormen, you have got to look at some of the TV stars who are making millions of dollars; and that these people speak and are on television for many hours during the day and during the week, and that you have got to use as a comparable a different standard than we are typically familiar with in the religious context.

I think this is a difficult issue, and there are also going to be difficult evidentiary problems to deal with when we evaluate the total package of compensation and fringe benefits that are received by some of these ministers.

So what I am saying is it is not an open-and-shut case, but I think it is a very difficult one, and I think the courts have the tools to deal with this issue; and the IRS has familiarity and experience with many other cases dealing with inurement of income.

Mr. RANGEL. Mr. Chairman, would you yield on that point?

Chairman PICKLE. Mr. Rangel.

Mr. RANGEL. I know that has been a major thrust of yours throughout the hearing as to what should be the salary. But it seems to me that it really should not make any difference what they are paid as long as they publicly disclose it.

If someone believes that their minister is a TV personality, or if someone went into the TV world to find somebody that could raise some money for the church, I think they are like football players—you pay what the marketplace warrants.

The problem I have is that the contributors do not know how much they are getting.

Chairman PICKLE. Well, that is a point. But I do not know that I would agree with you totally, although it is something we would have to discuss within the Committee, if we get into this any further. But the ministries, most of them, are operating as charitable organizations, tax-exempt. And I do not know that you could say the salary they get would be the same as a TV star, because they are not tax-exempt, and I think they start from a different base.

But I also think that you ought to compare them in like ministries or in like circumstances, under like type of programming.

So it is difficult. It is not enough to say it is difficult if we can try to make some contribution to it. We have recognized it is difficult.

Mr. **Rangel**. But you would have no problem if one of these ministers hired a high-faluting fundraising outfit, and the director received 20 percent of what was raised, and they may get $1 million a year, and the minister may believe that they can do a better job raising funds than hiring someone to do it.

Chairman **Pickle**. Well, what is reasonable? Some of our people today testified that they thought that some of the salaries they have seen reported were obscene. So I think it is something that would bother us all.

I would also hope, Mr. Egger, that you might tell us how you would characterize the following items: cars, one car, two cars, three cars; what kind of car; airplanes; charge accounts; clothing; vacation homes; health and insurance benefits, and so forth.

I asked the first question today, and I will repeat it again. Overall, how can the public, the Internal Revenue Service and the Congress be sure that tax-deductible contributions solicited by TV ministries are used for charitable exempt purposes? How do people know? That is what we are trying to find out.

If somebody wants to sit at home, listen to a program, and they love this TV minister and they want to give $5 or $5,000, that is their business. We have got no right to interfere with that, and we ought not to try to stop it. If they want to do it, wisely or not, they can do that. But they also should have the right to know where that money is going and if it is being given for that charitable purpose. How do we know that.

Mr. **Egger**. I think that all of those things that you have identified, of course, are compensation in one form or another, and so it comes right back to the question of inurement of benefits to the private individual versus the exempt purposes of the organization.

So, I think we need the reporting requirements, whether we go partway, as Mr. Sanders has suggested, or whether we go across-the-board and ask all exempt organizations to report. Such reporting, together with the disclosure that Mr. Rangel made reference to would give the IRS a database from which to make reasonable judgments as to what are people being paid and accorded in the way of benefits in that particular area of activity.

So I think that having the Service have the information with which to make the judgment of whether to pick up that return for examination, together with the disclosure, would go a long, long way to getting at the problem you are talking about—both for the reason that Mr. Rangel mentioned, but also because it gives the information to the Service that they need.

Chairman **Pickle**. Mr. Egger, we are going to submit some questions to you for further commentary. I know that you have been meeting with some of the other former Commissioners and with an advisory committee, trying to help the IRS Commissioner determine what is a better way to handle this, and we appreciate very much having your views on it.

Now, before you leave, and before we go to the floor to vote, I want to call attention to this for the record purposes.

I have just been handed a letter within the last few minutes, and I wish very much I had had it an hour or so ago, when someone was testifying here about what this committee is trying to do.

This is a letter put out by the National Religious Broadcasters. Let me just read to you some of the things they are saying here.

> Do you realize that religious broadcasting is being threatened today?
>
> Do you realize that the rights of your favorite Christian TV or radio station are actually under attack?"
>
> It may sound far-fetched, but it is truer than you think. Perhaps you thought that the Reagan revolution reversed all that. Not so. I do not want to sound like an alarmist, but I do mean to sound the alarm: the liberal element in our society today is still doing its utmost to strip this land of religious media.

I am still quoting now.

> For instance, I am enclosing a reprint of a letter that Congressman J.J. Pickle recently sent to many of our major religious broadcasters, asking them for a public hearing to delve into the personal ministry business that is protected by the U.S. Constitution.

I shall not comment on these paragraphs as I read them; I am just putting them now into the record.

> The truth is, Christian broadcasters are having a difficult enough time keeping up with all the Government and bureaucratic regulations that have been placed on us, many of which have already encroached on our First Amendment rights.

Then, it goes on to say:

> If you do not watch it, soon this all will be over. It is time we stood up and said to the lawmakers and to the courts enough. It is time that someone began informing Christians of the insidious work of those who would curb our religious media before it is too late.
>
> That is why I am writing you today. I am asking you to join with other like-minded Americans in launching the NRB Defense Fund, an organization that will fight for the Christian viewpoint. Truthfully, we see this move by Congressman Pickle and others as another sly way to harass ministries one by one, until we are each forced out of existence one by one.

I will quit reading the letter at this point. The letter from me mentioned a letter that we sent to the various ministries, asking did they want to come and testify. No more. It was not a letter that was sent separately to a lot of other people, just a general letter of solicitation. And in the margin, they have written all the insidious things that they are saying.

And yet, within the hour, they came and testified, applauding this committee for holding the hearing, and telling me they are trying to have a good standard. Yet this NRB letter incites the American public. This puts fear, trembling and even hatred in their hearts, that we are trying to do something to them.

I do not understand how you can come and testify that this committee is doing a good public function. Then I find here a letter, that had been reproduced, which does nothing but excite and arouse antagonism, if not disbelief, in what we are trying to accomplish. I find that hard to understand.

I do not expect you to comment. I am just going to put this entire letter in the record, because I think the public is entitled to see who is doing what to whom.

[The letter follows. See also appendix on p. 276.]

NRB NATIONAL RELIGIOUS BROADCASTERS
122 C St. NW-Suite 350 Capitol Hill/Washington, DC 20001

Dear Friend,

Do you realize that religious broadcasting is being threatened -- TODAY? Do you realize that the rights of your favorite Christian TV or radio station are actually under attack?

It may sound far-fetched, but it's truer than you think. You could lose your favorite religious television or radio station, or your favorite program -- not because of finances or because it is relocating, but due to legislation and court rulings!

> Perhaps you thought the "Reagan
> Revolution" reversed all of that.
> Not so!

Who would have thought that the day would come in America when religious broadcasters would be called to defend themselves to the Congress of the United States.

I don't mean to sound like an alarmist, but I do mean to sound the alarm: the liberal element in our society today is still doing its utmost to strip this land of religious media.

For instance, I am enclosing a reprint of a letter that Congressman J.J. Pickle recently sent to many of our major religious broadcasters asking them for a public hearing to delve into personal ministry business that is protected by the U.S. Constitution.

Many of us see this as the beginning of a new "inquisition" in which religious broadcasters will be put under the same torturous, unwarranted scrutiny that Oliver North and others have endured for lo these many months.

Unfortunately, due to the recent PTL scandal the liberals are using this as an opportunity to interfere in the operations of all broadcast ministries.

The truth is, Christian broadcasters are having a difficult enough time in keeping up with all the governmental and bureaucratic regulations that have been placed on us (many of which already encroach upon our First Amendment rights), but to have to publicly account to a congressional committee is the last straw.

The Supreme Court recently doomed hundreds of Christian and pro-family broadcasting organizations by reversing the "must-carry" rule, which required cable companies to make available all programming originating within a certain radius.

Face it. The secular media isn't going to provide impartial coverage...They certainly won't inform Christians of how to help themselves. In fact, the opposite has been true.

Secular attacks on religious media are nothing new. As early as 1974 -- when Christian television stations were still in their infancy -- petitions were circulated and filed with the FCC to "freeze" license applications by religious broadcasters for TV or FM channels reserved for educational stations.

Since the NRB's founding in 1944, attacks on religious broadcasting have occurred with more and more frequency. Today they come fast and furious. And yet, the Christian public remains chiefly unaware of the struggle -- and you lose your rights in the process!

The NRB Defense Fund can change that -- dramatically.

We will dedicate ourselves to exposing these battles early on...We will rally Christians together to make their voices heard...And we will actually wage the war for Christian liberties in the courtrooms and legislative cloakrooms of our land.

And that's where you come in. If you care about the kind of country America becomes -- if you care about the future of Christian broadcasting in this land -- then you are going to want to give a gift of $25 or more to the NRB Defense Fund....

...because your gift may be the deciding factor between victory and defeat in the battle for religious broadcasting in your nation.

You know, in the last 20 years, we -- the NRB -- haven't asked anyone for money. But when we saw the enemy forces amassed against us, we knew the need for the defense was so real and so urgent that we had to take immediate, far-reaching action.

That's how urgent the need is. That's why we're asking for your support today.

It may not seem like much to you...$25 probably just means "dinner out" one night -- but over the course of the coming months and years, that same $25 or more is going to be much more important than just "dinner out." It is going to mean the beginning of our victory over the forces which would challenge religious broadcasting.

Without the NRB Defense Fund -- without believers taking a stand for the cause of Christian freedoms -- our religious liberties could be chipped away, one by one...From the demolition of "must carry," to the freezing of religious TV licenses...From restricting where we can build new churches, to regulation on our witnessing!...From regulating how we spend our money, to how many missionaries leave our shores!

Naturally, this law entitled the smaller family-oriented television stations to a far greater broadcast range than had ever been possible before. But it's history now. This freedom was seized and taken.

Chances are your local news stations and papers ignored the entire story. You didn't see any special reports on the situation from Dan Rather or Mike Wallace. You didn't hear any speeches by Ted Kennedy to alert you to the situation.

It was all over before you knew it!

It's time we stood up and said to the lawmakers and to the courts, "ENOUGH!" It is time that someone began informing Christians of the insidious work of those who would curb our religious media -- before it's too late. It is time that we united and made a difference by strength of our numbers -- and prevented such losses.

That's why I'm writing you today: I'm asking you to join with other like-minded Americans in launching the NRB Defense Fund...an organization that will fight for the Christian viewpoint in the media, and inform Christians of their rights before those rights disappear.

Truthfully, we see this move by Congressman Pickle and others as another sly way to harass ministries one by one until we each are forced out of existence -- one by one.

The liberals always conveniently talk about the "wall of separation" between church and state. But the truth is, this phrase does not appear in our great constitution.

The real truth behind their motives is the fact that they would like to eliminate all religious broadcasting from the airwaves, leaving radio and television for the use of secular broadcasters only.

WE MUST NOT ALLOW THEM TO DO THIS! Unless we stand up and fight, we will surely lose our freedoms. Look at the hard facts:

National Religious Broadcasters was founded in 1944 and serves as an umbrella organization for the religious media throughout the land. From our offices in both Washington D.C. and Morristown, NJ (greater New York City area), we are in the perfect position to be an alert "watch-dog" for Christian media.

Our goal is to create a $1 million "war chest," standing ready to engage the enemy in the fight for the preservation of religious broadcasting. Had this "war chest" been available two years ago, we would not have suffered the "must carry" defeat-- and this was a major defeat.

Your gift of just $25 today can help to send the NRB Defense Fund into action. Without your gift -- without the watchful work of the NRB Defense Fund -- who knows how many more setbacks will be suffered by Christian broadcasters...without YOU ever knowing it -- until it's too late?

Where will it stop? It won't, as long as we fail to put up a fight.

I firmly believe that once a foothold has been established in muzzling the religious media, it will be that much easier to apply the muzzle to our local churches, our Christian schools--even the private lives of our families.

But when you send $25 -- or maybe even more -- you will be helping to call a halt to the steady slide of religious liberties. Without your $25 gift ... who knows?

As you send your $25 for this "war chest" for the defense of religious broadcasting, I want to send you special audio cassette tapes from our 1987 Convention.

The cassettes offer the four most powerful messages we heard at the Convention: an address by Vice-president George Bush, Jimmy Swaggart's powerful preaching, the message of NRB President Dr. Robert A. Cook and an inspirational word from Adrian Rogers.

When you send your gift to launch the NRB Defense Fund, be sure to request these power-packed cassette tapes.

We're willing to make a stand for our Christian broadcasting ...for its future. Can I count on you? I believe your commitment to Christian television and radio is worth at least $25 to you.

Let's not sell out. Instead, join me in launching the NRB Defense Fund...to secure our Christian freedoms, not only in the media but in our private lives.

We are a nation born out of the pilgrims' search for the freedom to worship as they chose -- how tragic for that freedom to die because people like you and me lost the first battle that was waged in the war to defend it.

We're rallying to fight that battle, to wage that war--starting with the $1 million "war chest" of the NRB Defense Fund. I'm hoping that you will sign up to fight along with us today.

Please send your gift of $25 or more -- right away. God bless you as you do.

Yours in Christ,

Ben Armstrong

Ben Armstrong
Executive Director

P.S. Attacks on your religious freedoms are stronger and more numerous than ever before. Please remember that your gift of $25 or more could make the difference in the struggle for our liberties. Help us launch the NRB Defense Fund by returning your reply card and check today.

J.J. PICKLE, TEXAS, CHAIRMAN
SUBCOMMITTEE ON OVERSIGHT
[illegible]

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515
SUBCOMMITTEE ON OVERSIGHT

DAN ROSTENKOWSKI, ILLINOIS, CHAIRMAN
COMMITTEE ON WAYS AND MEANS
[illegible]

July 2, 1987

This letter was mailed to many
of our Religious Broadcasters.

I am writing you to request your assistance in better understanding the operation and activities of your television ministry. I believe, as do other Members of Congress, that the delicate balance between the Constitutional rights of churches and the role of the Government in administering our tax laws must be carefully maintained and protected. Recent events surrounding the PTL, however, have cast shadows on television evangelical ministries which I feel need to be explored more fully in public.

These items are already covered by law. No public hearing is necessary.

Many Members of Congress and individuals have contacted me, in my capacity as Chairman of the Committee on Ways and Means' Subcommittee on Oversight, with questions about the activities of television ministries. Frankly, I have not been able to answer their questions. I would appreciate your assistance in answering these questions and generally clearing the air regarding evangelical religious broadcasters. I hope that you would be willing to do so.

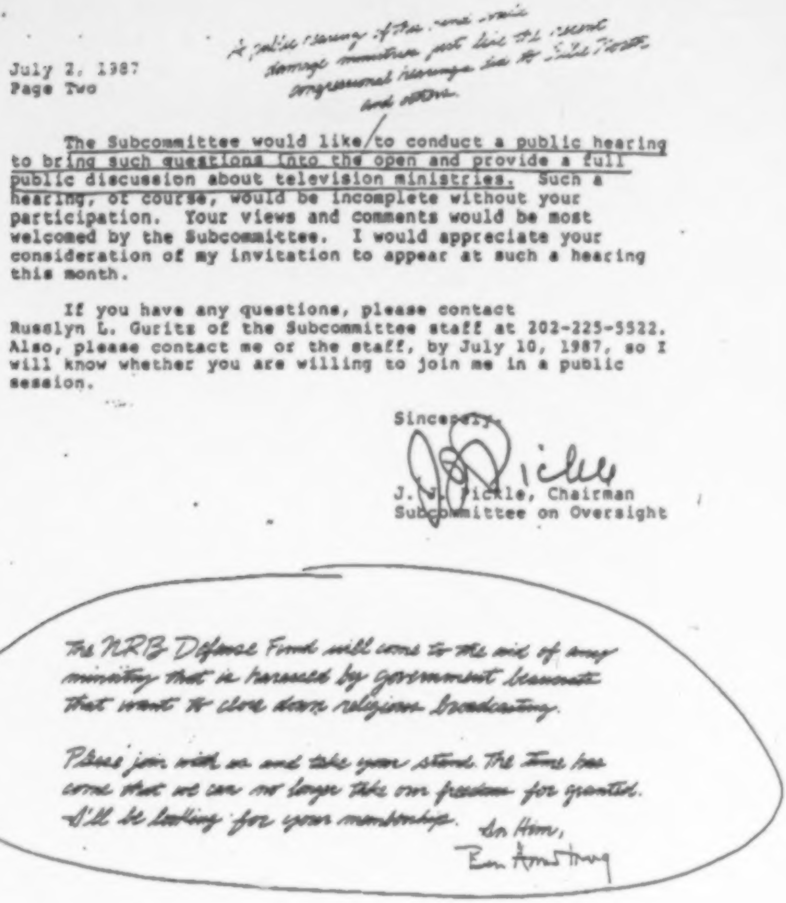
All media ministries are required to furnish reports to the IRS and others. It is a matter of public record.

As Chairman of the Oversight Subcommittee, I am particularly interested in the Federal tax rules that apply to your ministry and television evangelical ministries in general. In response to public concerns, I wonder how you insure that charitable donations, solicited during television broadcasts, are used for exempt purposes. It would be also helpful if we could discuss your ministry's overall qualifications for tax-exempt status, your public disclosure and accountability efforts and views, your policies for protecting against private inurement of ministry funds, and the overall income-producing activities of your ministry. In light of recent negative press accounts on these subjects, I hope that you would agree that a full and fair public discussion of such issues is both timely and necessary, as well as beneficial to all concerned.

All donations are recorded and receipted. Financial audits are conducted on a regular basis according with existing laws.

We have already met tax-exempt qualifications. What's there to discuss?

The press is always negative
when it comes to Christian ministries.



A public roasting of the [illegible] damage ministries just like the recent congressional hearings on the [illegible] and others.

July 2, 1987
Page Two

The Subcommittee would like to conduct a public hearing to bring such questions into the open and provide a full public discussion about television ministries. Such a hearing, of course, would be incomplete without your participation. Your views and comments would be most welcomed by the Subcommittee. I would appreciate your consideration of my invitation to appear at such a hearing this month.

If you have any questions, please contact Russlyn L. Guritz of the Subcommittee staff at 202-225-5522. Also, please contact me or the staff, by July 10, 1987, so I will know whether you are willing to join me in a public session.

Sincerely,

J. J. Pickle

J. J. Pickle, Chairman
Subcommittee on Oversight

The NRB Defense Fund will come to the aid of any ministry that is harassed by government bureaucrats that want to close down religious broadcasting.

Please join with us and take your stand. The time has come that we can no longer take our freedom for granted. I'll be looking for your membership.

In Him,
Ben Armstrong

Chairman **Pickle**. Again I want to say to you, this committee is absolutely concerned about the compliance and enforcement of the Tax Code with reference to TV ministries. We are asking the same questions with respect to those activities that involve lobbying and political activities. We are asking the same questions with respect to those organizations, foundations and charitable groups, conducting educational or other religious activities that involved the unrelated business income tax.

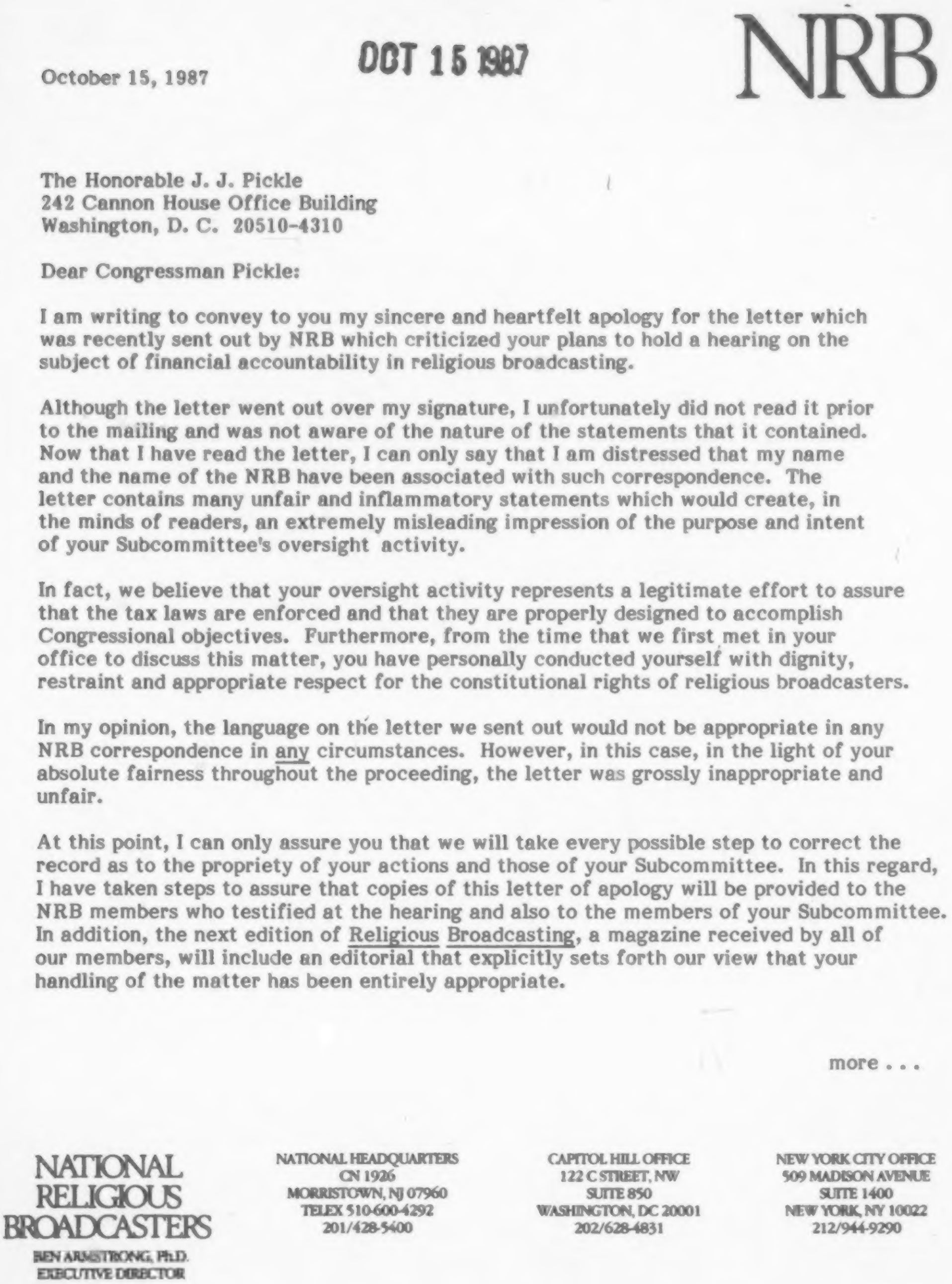
We are not asking anything different from TV ministers. But to say that we are harassing them and trying to put them out of business is dumbfounding and shocking and very disappointing. We will have more to say about that later.

Meanwhile, I thank you both very much for your testimony.

This concludes the hearing.

[Whereupon, at 5:25 p.m., the hearing was adjourned.]

APPENDIX



NRB

October 15, 1987

OCT 15 1987

The Honorable J. J. Pickle
242 Cannon House Office Building
Washington, D. C. 20510-4310

Dear Congressman Pickle:

I am writing to convey to you my sincere and heartfelt apology for the letter which was recently sent out by NRB which criticized your plans to hold a hearing on the subject of financial accountability in religious broadcasting.

Although the letter went out over my signature, I unfortunately did not read it prior to the mailing and was not aware of the nature of the statements that it contained. Now that I have read the letter, I can only say that I am distressed that my name and the name of the NRB have been associated with such correspondence. The letter contains many unfair and inflammatory statements which would create, in the minds of readers, an extremely misleading impression of the purpose and intent of your Subcommittee's oversight activity.

In fact, we believe that your oversight activity represents a legitimate effort to assure that the tax laws are enforced and that they are properly designed to accomplish Congressional objectives. Furthermore, from the time that we first met in your office to discuss this matter, you have personally conducted yourself with dignity, restraint and appropriate respect for the constitutional rights of religious broadcasters.

In my opinion, the language on the letter we sent out would not be appropriate in any NRB correspondence in any circumstances. However, in this case, in the light of your absolute fairness throughout the proceeding, the letter was grossly inappropriate and unfair.

At this point, I can only assure you that we will take every possible step to correct the record as to the propriety of your actions and those of your Subcommittee. In this regard, I have taken steps to assure that copies of this letter of apology will be provided to the NRB members who testified at the hearing and also to the members of your Subcommittee. In addition, the next edition of Religious Broadcasting, a magazine received by all of our members, will include an editorial that explicitly sets forth our view that your handling of the matter has been entirely appropriate.

more . . .

NATIONAL
RELIGIOUS
BROADCASTERS
BEN ARMSTRONG, Ph.D.
EXECUTIVE DIRECTOR

NATIONAL HEADQUARTERS
CN 1926
MORRISTOWN, NJ 07960
TELEX 510-600-4292
201/428-5400

CAPITOL HILL OFFICE
122 C STREET, NW
SUITE 850
WASHINGTON, DC 20001
202/628-4831

NEW YORK CITY OFFICE
509 MADISON AVENUE
SUITE 1400
NEW YORK, NY 10022
212/944-9290

Once again, I would like to express to you my profound personal apologies. If there are any other steps that I can take in an effort to rectify the situation, please feel free to contact me at any time.

Cordially yours,

Ben Armstrong

Ben Armstrong
Executive Director

BA:ad

cc: Members of the Ways and Means Oversight Subcommittee
NRB Witnesses at October 6 Hearing

[Letters identical to that below were sent to: Dr. D. James Kennedy, Coral Ridge Presbyterian Church, Fort Lauderdale, Fla.; Rev. John Ankerberg, John Ankerberg Show, Chattanooga, Tenn.; Rev. Jerry Falwell, Lynchburg, Va.; Rev. Oral Roberts, Oral Roberts Evangelistic Association, Inc., Tulsa, Okla.; Rev. Paul Crouch, Trinity Broadcasting Network, Santa Ana, Calif.; and Rev. Jimmy Swaggart, Jimmy Swaggart Ministries, Baton Rouge, La. Responses follow:]

J.J. PICKLE, TEXAS, CHAIRMAN
SUBCOMMITTEE ON OVERSIGHT

BERYL ANTHONY, JR., ARKANSAS
RONNIE G. FLIPPO, ALABAMA
BYRON L. DORGAN, NORTH DAKOTA
HAROLD FORD, TENNESSEE
CHARLES B. RANGEL, NEW YORK
ANDY JACOBS, JR., INDIANA

DICK SCHULZE, PENNSYLVANIA
BILL FRENZEL, MINNESOTA
WILLIAM M. THOMAS, CALIFORNIA
RAYMOND J. McGRATH, NEW YORK

Ex Officio:
DAN ROSTENKOWSKI, ILLINOIS
JOHN J. DUNCAN, TENNESSEE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

SUBCOMMITTEE ON OVERSIGHT

DAN ROSTENKOWSKI, ILLINOIS, CHAIRMAN
COMMITTEE ON WAYS AND MEANS

ROBERT J. LEONARD, CHIEF COUNSEL
M. KENNETH BOWLER, STAFF DIRECTOR
BETH KUNTZ VANCE, SUBCOMMITTEE STAFF DIRECTOR

A.L. SINGLETON, MINORITY CHIEF OF STAFF
MICHAEL A. SUPERATA, COUNSEL TO THE MINORITY

October 7, 1987

Reverend Larry Jones
Larry Jones International Ministries,
  Incorporated
P. O. Box 36
Oklahoma City, Oklahoma 73101-0036

Dear Reverend Jones:

I have enclosed, for your information, a copy of a letter and attachments from the National Religious Broadcasters (NRB). These materials were brought to my attention during the close of the Subcommittee on Oversight's hearing on the Federal tax rules applicable to television ministries in which you participated.

I thought that you should be personally advised of the current actions of the NRB. The attached materials were being distributed to the public at the very time you and representatives of the NRB were testifying before the Subcommittee. I consider this to be not only inappropriate, but also factually incorrect.

I would be interested in any comments you might have. I am disappointed with what has taken place.

Sincerely,

J. J. Pickle, Chairman
Subcomittee on Oversight

JJP/bvw

Enclosure

Thanks for coming by the office & thanks for your consideration.

[REV. JONES PERSONALLY STOPPED BY CONGRESSMAN PICKLE'S OFFICE TO GIVE HIS COMMENTS ON THE NRB LETTER.]

NRB NATIONAL RELIGIOUS BROADCASTERS
122 C St. NW-Suite 350 Capitol Hill/Washington, DC 20001

Dear Friend,

Do you realize that religious broadcasting is being threatened -- TODAY? Do you realize that the rights of your favorite Christian TV or radio station are actually under attack?

It may sound far-fetched, but it's truer than you think. You could lose your favorite religious television or radio station, or your favorite program -- not because of finances or because it is relocating, but due to legislation and court rulings!

Perhaps you thought the "Reagan
Revolution" reversed all of that.
Not so!

Who would have thought that the day would come in America when religious broadcasters would be called to defend themselves to the Congress of the United States.

I don't mean to sound like an alarmist, but I do mean to sound the alarm: the liberal element in our society today is still doing its utmost to strip this land of religious media.

For instance, I am enclosing a reprint of a letter that Congressman J.J. Pickle recently sent to many of our major religious broadcasters asking them for a public hearing to delve into personal ministry business that is protected by the U.S. Constitution.

Many of us see this as the beginning of a new "inquisition" in which religious broadcasters will be put under the same torturous, unwarranted scrutiny that Oliver North and others have endured for lo these many months.

Unfortunately, due to the recent PTL scandal the liberals are using this as an opportunity to interfere in the operations of all broadcast ministries.

The truth is, Christian broadcasters are having a difficult enough time in keeping up with all the governmental and bureaucratic regulations that have been placed on us (many of which already encroach upon our First Amendment rights), but to have to publicly account to a congressional committee is the last straw.

The Supreme Court recently doomed hundreds of Christian and pro-family broadcasting organizations by reversing the "must-carry" rule, which required cable companies to make available all programming originating within a certain radius.

Face it. The secular media isn't going to provide impartial coverage...They certainly won't inform Christians of how to help themselves. In fact, the opposite has been true.

Secular attacks on religious media are nothing new. As early as 1974 -- when Christian television stations were still in their infancy -- petitions were circulated and filed with the FCC to "freeze" license applications by religious broadcasters for TV or FM channels reserved for educational stations.

Since the NRB's founding in 1944, attacks on religious broadcasting have occurred with more and more frequency. Today they come fast and furious. And yet, the Christian public remains chiefly unaware of the struggle -- and you lose your rights in the process!

The NRB Defense Fund can change that -- dramatically.

We will dedicate ourselves to exposing these battles early on...We will rally Christians together to make their voices heard...And we will actually wage the war for Christian liberties in the courtrooms and legislative cloakrooms of our land.

And that's where you come in. If you care about the kind of country America becomes -- if you care about the future of Christian broadcasting in this land -- then you are going to want to give a gift of $25 or more to the NRB Defense Fund....

...because your gift may be the deciding factor between victory and defeat in the battle for religious broadcasting in your nation.

You know, in the last 20 years, we -- the NRB -- haven't asked anyone for money. But when we saw the enemy forces amassed against us, we knew the need for the defense was so real and so urgent that we had to take immediate, far-reaching action.

That's how urgent the need is. That's why we're asking for your support today.

It may not seem like much to you...$25 probably just means "dinner out" one night -- but over the course of the coming months and years, that same $25 or more is going to be much more important than just "dinner out." It is going to mean the beginning of our victory over the forces which would challenge religious broadcasting.

Without the NRB Defense Fund -- without believers taking a stand for the cause of Christian freedoms -- our religious liberties could be chipped away, one by one...From the demolition of "must carry," to the freezing of religious TV licenses...From restricting where we can build new churches, to regulation on our witnessing!...From regulating how we spend our money, to how many missionaries leave our shores!

Naturally, this law entitled the smaller family-oriented television stations to a far greater broadcast range than had ever been possible before. But it's history now. This freedom was seized and taken.

Chances are your local news stations and papers ignored the entire story. You didn't see any special reports on the situation from Dan Rather or Mike Wallace. You didn't hear any speeches by Ted Kennedy to alert you to the situation.

It was all over before you knew it!

It's time we stood up and said to the lawmakers and to the courts, "ENOUGH!" It is time that someone began informing Christians of the insidious work of those who would curb our religious media -- before it's too late. It is time that we united and made a difference by strength of our numbers -- and prevented such losses.

That's why I'm writing you today: I'm asking you to join with other like-minded Americans in launching the NRB Defense Fund...an organization that will fight for the Christian viewpoint in the media, and inform Christians of their rights before those rights disappear.

Truthfully, we see this move by Congressman Pickle and others as another sly way to harass ministries one by one until we each are forced out of existence -- one by one.

The liberals always conveniently talk about the "wall of separation" between church and state. But the truth is, this phrase does not appear in our great constitution.

The real truth behind their motives is the fact that they would like to eliminate all religious broadcasting from the airwaves, leaving radio and television for the use of secular broadcasters only.

WE MUST NOT ALLOW THEM TO DO THIS! Unless we stand up and fight, we will surely lose our freedoms. Look at the hard facts:

National Religious Broadcasters was founded in 1944 and serves as an umbrella organization for the religious media throughout the land. From our offices in both Washington D.C. and Morristown, NJ (greater New York City area), we are in the perfect position to be an alert "watch-dog" for Christian media.

Our goal is to create a $1 million "war chest," standing ready to engage the enemy in the fight for the preservation of religious broadcasting. Had this "war chest" been available two years ago, we would not have suffered the "must carry" defeat-- and this was a major defeat.

Your gift of just $25 today can help to send the NRB Defense Fund into action. Without your gift -- without the watchful work of the NRB Defense Fund -- who knows how many more setbacks will be suffered by Christian broadcasters...without YOU ever knowing it -- until it's too late?

Where will it stop? It won't, as long as we fail to put up a fight.

I firmly believe that once a foothold has been established in muzzling the religious media, it will be that much easier to apply the muzzle to our local churches, our Christian schools--even the private lives of our families.

But when you send $25 -- or maybe even more -- you will be helping to call a halt to the steady slide of religious liberties. Without your $25 gift ... who knows?

As you send your $25 for this "war chest" for the defense of religious broadcasting, I want to send you special audio cassette tapes from our 1987 Convention.

The cassettes offer the four most powerful messages we heard at the Convention: an address by Vice-president George Bush, Jimmy Swaggart's powerful preaching, the message of NRB President Dr. Robert A. Cook and an inspirational word from Adrian Rogers.

When you send your gift to launch the NRB Defense Fund, be sure to request these power-packed cassette tapes.

We're willing to make a stand for our Christian broadcasting ...for its future. Can I count on you? I believe your commitment to Christian television and radio is worth at least $25 to you.

Let's not sell out. Instead, join me in launching the NRB Defense Fund...to secure our Christian freedoms, not only in the media but in our private lives.

We are a nation born out of the pilgrims' search for the freedom to worship as they chose -- how tragic for that freedom to die because people like you and me lost the first battle that was waged in the war to defend it.

We're rallying to fight that battle, to wage that war--starting with the $1 million "war chest" of the NRB Defense Fund. I'm hoping that you will sign up to fight along with us today.

Please send your gift of $25 or more -- right away. God bless you as you do.

Yours in Christ,

Ben Armstrong

Ben Armstrong
Executive Director

P.S. Attacks on your religious freedoms are stronger and more numerous than ever before. Please remember that your gift of $25 or more could make the difference in the struggle for our liberties. Help us launch the NRB Defense Fund by returning your reply card and check today.

J.J. PICKLE, TEXAS, CHAIRMAN
SUBCOMMITTEE ON OVERSIGHT

BERYL ANTHONY, JR., ARKANSAS
RONNIE G. FLIPPO, ALABAMA
BYRON L. DORGAN, NORTH DAKOTA
HAROLD FORD, TENNESSEE
CHARLES B. RANGEL, NEW YORK
ANDY JACOBS, JR., INDIANA

DICK SCHULZE, PENNSYLVANIA
BILL FRENZEL, MINNESOTA
WILLIAM M. THOMAS, CALIFORNIA
RAYMOND J. MCGRATH, NEW YORK

Ex Officio:
DAN ROSTENKOWSKI, ILLINOIS
JOHN J. DUNCAN, TENNESSEE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

SUBCOMMITTEE ON OVERSIGHT

DAN ROSTENKOWSKI, ILLINOIS, CHAIRMAN
COMMITTEE ON WAYS AND MEANS

ROBERT J. LEONARD, CHIEF COUNSEL
M. KENNETH BOWLER, STAFF DIRECTOR
BETH KUNTZ VANCE, SUBCOMMITTEE STAFF DIRECTOR

A.L. SINGLETON, MINORITY CHIEF OF STAFF
MICHAEL A. SUPERATA, COUNSEL TO THE MINORITY

July 2, 1987

This letter was mailed to many of our Religious Broadcasters.

I am writing you to request your assistance in better understanding the operation and activities of your television ministry. I believe, as do other Members of Congress, that the delicate balance between the Constitutional rights of churches and the role of the Government in administering our tax laws must be carefully maintained and protected. Recent events surrounding the PTL, however, have cast shadows on television evangelical ministries which I feel need to be explored more fully in public.

These events are already covered by law. No public hearing is necessary.

Many Members of Congress and individuals have contacted me, in my capacity as Chairman of the Committee on Ways and Means' Subcommittee on Oversight, with questions about the activities of television ministries. Frankly, I have not been able to answer their questions. I would appreciate your assistance in answering these questions and generally clearing the air regarding evangelical religious broadcasters. I hope that you would be willing to do so.

All media ministries are required to furnish reports to the IRS and others. It is a matter of public record.

As Chairman of the Oversight Subcommittee, I am particularly interested in the Federal tax rules that apply to your ministry and television evangelical ministries in general. In response to public concerns, I wonder how you insure that charitable donations, solicited during television broadcasts, are used for exempt purposes. It would be also helpful if we could discuss your ministry's overall qualifications for tax-exempt status, your public disclosure and accountability efforts and views, your policies for protecting against private inurement of ministry funds, and the overall income-producing activities of your ministry. In light of recent negative press accounts on these subjects, I hope that you would agree that a full and fair public discussion of such issues is both timely and necessary, as well as beneficial to all concerned.

All donations are recorded and receipted. Financial audits are conducted on a regular basis in accordance with existing laws.

We have already met tax-exempt qualifications. What's there to discuss?

The press is always negative when it comes to Christian ministries.

A public hearing of this nature could damage ministries just like the recent congressional hearings did to Ollie North and others.

July 2, 1987
Page Two

The Subcommittee would like to conduct a public hearing to bring such questions into the open and provide a full public discussion about television ministries. Such a hearing, of course, would be incomplete without your participation. Your views and comments would be most welcomed by the Subcommittee. I would appreciate your consideration of my invitation to appear at such a hearing this month.

If you have any questions, please contact Russlyn L. Guritz of the Subcommittee staff at 202-225-5522. Also, please contact me or the staff, by July 10, 1987, so I will know whether you are willing to join me in a public session.

Sincerely,

J. J. Pickle, Chairman
Subcommittee on Oversight

The NRB Defense Fund will come to the aid of any ministry that is harassed by government bureaucrats that want to close down religious broadcasting.

Please join with us and take your stand. The time has come that we can no longer take our freedoms for granted. I'll be looking for your membership.

In Him,
Ben Armstrong

CORAL RIDGE
PRESBYTERIAN
CHURCH 5555 North Federal Highway • Fort Lauderdale • Florida 33308 • (305) 771-8840

RECEIVED
NOV 5 1987
Ways and Means
Subcommittee on Oversight

October 28, 1987

The Honorable J. J. Pickle
Chairman
Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives
1105 Longworth House Office Bldg.
Washington, D.C. 20515

Dear Mr. Chairman:

I have received a copy of Ben Armstrong's apology; therefore, I think no further comment on my part is needed.

Sincerely in Christ,

D. James Kennedy

D. James Kennedy
Senior Minister

DJK/mab

The John Ankerberg Show

October 16, 1987

OCT 20 1987

Congressman J. J. Pickle, Chairman
Subcommittee on Oversight
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Pickle:

My attorney and first Board Chairman Glenn Stophel and I were very pleased with your handling of the hearings concerning the federal tax rules and their application to television ministries.

I appreciated the respect and kindness you and the other Congressmen extended to us when we testified. It is my opinion that you went out of your way to clarify the issues and specifically point out that you were not conducting an investigation into the religious beliefs of the broadcasters, nor were you trying to get anyone off the air.

In fact, I thought the entire day went rather well, and that you were considerate of all the people who testified. My conclusions were that the hearings helped clear the air in front of the American people by showing that the religious broadcasters who testified were complying with the federal tax rules, and most were already filing a 990 form. I would characterize our day before the committee as a friendly discussion, where respect was given to the national religious broadcasters by the committee, and the ministers were candid and open concerning how they complied with the tax laws.

Now concerning your letter dated October 7th, which included a copy of the July 15 NRB fund-raising letter. That was the first time I had seen the letter. When I testified before your committee, I did not know of its existence nor that the NRB had sent it out.

I, too, am deeply disappointed that the NRB sent the letter. The day I received your letter, I voiced my opinion to Dr. Robert Cook and to Dr. Ben Armstrong at the NRB, stating that, in my opinion, the letter was a mistake.

Frankly, I am angry that the NRB, the very organization that I was bragging about in front of your committee, would characterize the hearings in such a way. I agree wholeheartedly with you that this letter was not appropriate.

You are probably wondering, "What can be done now at this point?" First, you can count on me to express your concerns as well as my own to the NRB Executive Board. I am on record with them that we must admit this was wrong and a mistake. We should not defend the letter, rather we must back away from it completely.

Second, that which I testified before your committee is still true. This February at our convention I believe the NRB will ratify EFICOM and then the "fur will hit the fan." The broadcasters will have to comply with rules that are much stricter than government's 990 form. I believe the majority of the broadcasters will be happy to do so.

Third, you can count on me that everyplace I go I will testify to the fact that the hearings were fair and that you and the committee went out of your way to show respect and give kindness to those of us who testified.

Sincerely,

John ANKERBERG
John Ankerberg

JA:ll

RECEIV
NOV 3 19
NOV 1987 Ways and Mea
Subcommittee on Overs

October 27, 1987

The Honorable J. J. Pickle
United States House of Representatives
242 Cannon House Office Building
1st and Independence Avenue, S.E.
Washington, DC 20515

Dear Mr. Pickle:

In light of the fact that we have missed each other's phone calls, I have decided to write. Let me first express my appreciation for the professional way in which you handled the hearing on October 6. I trust the hearing was informative for you and the members of your committee.

The reason for my call, initially, was to apologize for the NRB fund-raising letter concerning your hearing. I must say I had no knowledge of this letter until the following day when my assistant read about it in the WASHINGTON POST and informed me. I made it known publicly that I had nothing to do with that letter. In fact, the day I resigned from PTL, October 8, I said at a very large press conference, which was carried live by CNN, that I thought the fund-raising letter was a stupid mistake on the part of NRB.

I am now aware that Dr. Ben Armstrong has apologized to you in writing, and I am glad he has done so. Dr. Armstrong is a very fine man and a very capable executive director of the NRB. Evidently, someone gave some bad advice and recommended mailing such a letter, but in the years I have known Dr. Armstrong, he has always exhibited a great deal of wisdom.

The situation was unfortunate as it put a sour note on what I felt was an encouraging hearing, but I trust we can put it behind us. Thank you, once again, for your leadership on this issue, and please feel free to contact me if I can be of further help.

Sincerely,

Jerry Falwell

Jerry Falwell

JF/rd

NOV 02 1987

ORAL ROBERTS

October 23, 1987

RECEIVED
NOV 3 1987
Ways and Means
Subcommittee on Oversight

The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
COMMITTEE ON WAYS AND MEANS
U. S. House of Representatives
Washington, DC 20515

Dear Congressman Pickle:

It was a very great honor to appear before you and the Subcommittee on Oversight. The respect shown me and the openness in receiving my testimony made me know as never before that we really have high caliber men and women serving in our Congress.

I appreciate your letter which enclosed a copy of the letter by the NRB. You may remember that one of the Congressmen asked me if I were a member. I answered in the negative. When he asked me why, I replied that I felt the accounting methods which have been followed by the Oral Roberts Ministries were stricter then those of the National Religious Broadcasters.

I was also asked did I intend to join the NRB in the new arm they were forming to in effect police christian broadcasters. I answered if that would help solve the problem, we would certainly consider it.

Your concern expressed in your letter regarding the letter that the NRB sent to their members indicates to you, I believe, the correctness of our position not to be forced into a group that is seemingly taking upon itself an authority they really cannot carry out.

You may remember one of the religious broadcasters testified twice removed from my time who said that those who did not join would show they were dishonest. You can imagine how I resented that. I don't believe that these people, however well intentioned, have a monopoly on honesty and the ability to meet the requirements of the Internal Revenue Service of a tax exempt religious and charitable organization such as ours.

Further, I think it is presumptuous for any group to believe that they have the right to go into other ministries and demand to know in advance the content of letters, and radio and television programs. I know the 12-member board of trustees governing the Oral Roberts Evangelistic Association, the 41-member board of regents governing Oral Roberts University and the various boards governing the City of Faith would rebuke any outside force subjecting this ministry to scrutiny which might reflect either their denominational point of view or their own self-imposed standards for other people.

I would also like for you to know that I too believe the NRB's letter and materials were inappropriate and factually inaccurate. We certainly do not believe that your Subcommittee intended to start an "inquisition." I believe that you had a perfectly valid concern and took appropriate action. Indeed, I share your concerns.

Congressman Pickle, at any time you might find a need to talk to me by telephone or letter on this or other matters, please feel free. I have admired you personally at a distance for many years. Our mutual friend, James R. Jones, talked to me several times in the most favorable light about you. I will not forget the fairness of the committee to me.

God bless you personally and in your most important work.

Sincerely,

Oral Roberts

Oral Roberts

OR:rr
cc: The Honorable James R. Jones
Charles Chapel

TBN

OCT 21 1987

October 13, 1987

The Honorable J.J. Pickle, Chairman
Subcommittee on Oversight
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Pickle:

Your letter of October 7 has come to my attention. Before commenting on your concerns, let me express my appreciation for the courtesy and respect which I feel you and the other members of your subcommittee extended to all of us who gave testimony. I have shown much of the subcommittee's proceedings on the TBN network and have assured our viewers, as you requested, that the purpose was not investigatory or a threat in any way to the free access of religious broadcasting to the air waves. I have sought all along to make this clear, but as we discussed in the hearings, people do get things confused and now as I read the NRB letter from Ben Armstrong, I am wondering, if perhaps, some of the fear expressed in letters to you and TBN may have been kindled by NRB. I, too, am surprised by the strong rhetoric of Ben Armstrong. His one point is well taken by me on the loss of the must carry rule. This did hurt many independent and religious stations. But this was action by the courts and cannot be laid at the door of the Congress. Actually, this has forced us to sharpen up our programming and TBN is now adding cable systems as well as building new stations. As Congressman Anthony pointed out, there was a growth of eleven per cent in religious TV stations last year, so the Congress has not persecuted the cause of religious broadcasting so far as I can see.

Again, let me say that I am sorry if we have made your job more difficult in any way. I will do my best to get the word to our many viewers as to the purpose of your committee's inquiries. God knows you men in Congress have a very tough job trying to reconcile the many factions in our diverse society. Please know that we respect the work

The Honorable J.J. Pickle
October 13, 1987
Page 2

you are doing and will be praying for God's wisdom and guidance for you and your committee.

Sincerely yours,

Paul F. Crouch

Paul F. Crouch
President
Trinity Broadcasting Network, Inc.

PFC:mt

xc: Colby M. May, Esq.

OCT 21 1987

from the office of
Jimmy Swaggart

October 12, 1987

Congressman J. J. Pickle, Chairman
Subcommittee on Oversight
Committee on Ways and Means
U. S. House of Representatives
Washington, D.C. 20515

Dear Congressman Pickle:

Thank you for your letter of October 7, 1987 enclosing materials apparently distributed by the National Religious Broadcasters (NRB).

I agree completely that the materials enclosed with your letter were inappropriate and incorrect. We had no knowledge of the distribution of that information until you brought it to our attention and, although we are a member of the NRB, cannot support the distribution of such materials. As I told you in our meeting on July 21, 1987, we believe your subcommittee not only has the right, but the responsibility to oversee the proper enforcement of existing law.

Immediately upon receiving your letter, we have communicated to the national office of the National Religious Broadcasters our disagreement with what was done. I trust they have taken steps with your office to make this matter right.

Sincerely,

Reverend Jimmy Swaggart

JS/lw

COPY: Dr. Ben Armstrong

P.O. Box 2550, Baton Rouge, Louisiana 70821-2550

SUBMISSIONS FOR THE RECORD

CBN CENTER VIRGINIA BEACH, VIRGINIA 23463 (804) 424-7777

The Christian Broadcasting Network Inc.

Timothy B. Robertson
PRESIDENT

October 2, 1987

The Honorable J.J. Pickle, Chairman
Subcommittee on Oversight
Committee on Ways and Means
United States House of Representatives
Longworth Office Building
Washington, D.C. 20515

Dear Congressman Pickle:

I have just recently received a copy of your letter of invitation to Pat Robertson dated September 15, 1987. Although his schedule will not permit him to attend, as indicated in his prior correspondence to you, I nonetheless thought it appropriate to provide a written response on behalf of The Christian Broadcasting Network, Inc.

The enclosed statement addresses the specific questions which your letter asked of Pat Robertson. In addition, it also contains a recommendation that the Subcommittee give careful consideration to the efforts of the Ethics and Financial Integrity Commission (EFICOM) of the National Religious Broadcasters.

In light of this significant self-regulatory effort further government legislative or regulatory action does not seem warranted at this time.

I hope the enclosed comments will be of assistance to your Subcommittee.

Sincerely yours,

Timothy B. Robertson,
President

TRB/db

enclosure

October 2, 1987

THE CHRISTIAN BROADCASTING NETWORK, INC.

ANSWERS TO QUESTIONS CONTAINED IN THE REPRESENTATIVE PICKLE'S SEPTEMBER 15 LETTER ADDRESSED TO PAT ROBERTSON

1. The Christian Broadcasting Network, Inc. (CBN) is classified as a Section 501(c)(3) organization under federal tax laws. In a letter dated December 7, 1961, the Internal Revenue Service gave CBN the right to operate as an exempt organization for religious purposes.

2. CBN files a Form 990 annually as required of all Section 501(c)(3) organizations which have receipts in excess of $25,000.

Our organization is audited annually by the accounting firm of Coopers & Lybrand. This insures that our financial records are kept according to generally accepted accounting principles and that proper fiscal controls are in place.

CBN has made available to the public an annual report which includes summary financial data. We are committed to adhering to the reporting requirements of the Ethics and Financial Integrity Commission (EFICOM), a newly created committee of the National Religious Broadcasters.

3. The mission of CBN is to prepare the United States of America, the nations of the Middle East, the Far East, South

America, and other selected nations of the world for the coming of Jesus Christ and the establishment of the Kingdom of God on earth. CBN's ultimate goal is to achieve a time in history when "the knowledge of the Lord will cover the earth as the waters cover the sea."

In achieving its mission, CBN's chief method is the strategic use of mass communication, especially radio, television, and film; the distribution of records, cassettes, films and literature; and the conduct of education that will train the young and old to understand how the principles of the Kingdom of God relate to those spheres of human endeavor which play a dominant role in our world.

CBN is the producer of the "700 Club," which is a daily television program communicating how the Bible and its principles can be applied to the problems and situations people face in everyday life. The "700 Club" can be seen in 91% of all U.S. households, or potentially 80 million homes. Internationally the program is broadcast in 29 different nations and has a potential viewership of 237 million people.

In addition to daily broadcasts of the international version of the "700 Club," CBN continues to develop creative ways to reach the world with the Gospel. This includes special videotapes, literature, evangelical campaigns, support for a short-wave radio broadcast that beams ministry programs into Eastern Europe and Western Russia, and a special dubbing of the animated Bible story series "Superbook" into Russian, Hungarian and Polish.

Last year telephone counselors at "700 Club" centers across the United States answered over 5 million calls from people in need of prayer, support and direction. These counseling centers are a powerful ministry in helping people who are crying out for help with family problems, to be freed from the bondage of drugs and alcohol, and countless other spiritual and physical needs. CBN is effectively reaching people in America who are hurting and is providing answers that work for these people.

Overseas, "700 Club" viewers in 21 countries can call telephone counselors directly for prayer and counseling.

CBN is also heavily involved in worldwide relief operations through the outreach CBN calls "Operation Blessing." Nine years ago, CBN created a uniquely structured distribution system designed to bring food, clothing and shelter to people who lack life's fundamental necessities. President Reagan has referred to Operation Blessing as "an example of the spirit of voluntarism needed in America."

During the last fiscal year, CBN partners and volunteers from a network of 15,000 cooperating churches provided help to over 6 million people through Operation Blessing. By year's end, $8 million in CBN funds were matched and/or leveraged, ultimately bringing in a total of $49 million for use in worldwide relief efforts.

Since its formation, Operation Blessing has become an effective means to help alleviate human suffering. Due to the substantial voluntary support and its matching and/or leveraged emphasis, 100% of all donations received are applied directly as aid, with CBN bearing the cost of administrative overhead.

CBN's recently established publishing division is spreading the knowledge and truths of the Bible through the production and distribution of video tapes, audio tapes and print material. Its primary market focus is on the family, with particular emphasis on the child.

The publishing division's product line includes the best-selling animated videotape series, "Superbook" and "The Flying House," which shed light on biblical principles and the colorful personalities found in the Old and New Testament.

CBN is promoting, by giving away to less fortunate individuals and selling to those who can afford it, a phenomenally successful phonetic reading and writing program, "Sing, Spell, Read & Write." Its multisensory teaching method is showing children as well as adults how to quickly break through the barrier of illiteracy.

CBN's Project Bible has increased Bible readership in the United States. This multi-faceted project included the production and airing of a prime-time television special entitled "Don't Ask Me, Ask God" which had an estimated aggregate 25 million viewers. As a part of Project Bible, CBN is working closely with Tyndale House Publishers to promote Bible readership.

CBN files a Form 990-T to report unrelated business income. The activities which are reported on this form are the production of non-religious television programming and the unrelated business activity of CBN Cable Network, which distributes television programming via satellite to domestic cable systems. The network reaches 37 million households and is one of the primary delivery systems for our religious programs.

When CBN Cable Network is not showing religious programming, it airs wholesome family programming which promotes Judeo-Christian values. This type of programming is of commercial value. CBN receives advertising income from such shows and reports this income on Form 990-T.

Commercial activities of two television stations and one radio station are conducted through a wholly-owned subsidiary which submits its own Form 1120 tax return.

To a limited degree, a separate subsidiary corporation has also been used to produce television programming.

4. CBN takes several steps to ensure that tax-deductible contributions are used exclusively for exempt, and not private, purposes. The CBN Board of Directors reviews the planned activities contained within the budget at the beginning of each fiscal year. It monitors actual results versus budget and receives progress reports on projects. We make extensive use of

the tax counsel of Coopers & Lybrand in planning proposed activities and reviewing ongoing activities. In conducting its annual audit of CBN, Coopers & Lybrand is well aware of the need to have tax-deductible contributions used for exempt purposes.

We have been members of the National Religious Broadcasters (NRB) since the early days of CBN. We have actively supported the ethical and financial standards of the NRB Constitution and Bylaws. In fact, Pat Robertson was the first to recommend to Dr. Ben Armstrong, NRB's Executive Director, that the NRB aggressively pursue a self-regulating organization. Last December we were one of several broadcast ministries which came together in Washington to explore ways of strengthening these standards and launching a self-regulating procedure for religious broadcasters. The result of these meetings was the Ethics and Financial Integrity Commission (EFICOM), which was approved by the NRB Board of Directors in February.

We believe that the present IRS regulations for Section 501(c)(3) organizations combined with the requirements of EFICOM provide a rigorous set of standards for religious broadcasters.

CBN has participated actively in the development of EFICOM and fully supports rigorous enforcement of its standards among all NRB members. We believe that self-regulation together with the present IRS regulations will be an effective mechanism to safeguard the public interest, more so than additional governmental actions. Self-regulation carries the advantage of less government staff and lower costs and also avoids the inherent danger of excessive government entanglement in religious affairs.

In short, we believe that rigorous self-regulation under EFICOM, together with the present Section 501(c)(3) requirements, will more than adequately ensure against the potential for abuse with which you are concerned, and bring about a restoration of the credibility of religious broadcast ministries.

Crystal Cathedral Congregation
12141 LEWIS STREET, GARDEN GROVE, CALIFORNIA 92640 • (714) 971-4000
Dr. Robert Harold Schuller
FOUNDER AND CHAIRMAN OF THE BOARD
Dr. Herman J. Ridder
PRESIDENT OF THE CONGREGATION

October 1, 1987

The Honorable J.J. Pickle, Chairman
Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Pickle:

I wish to acknowledge your invitations to me, in your letters of July 2nd and September 15th, to attend and to testify at a hearing which the Subcommittee on Oversight has scheduled for October 6th. Your letters state that the purpose of the hearing is to examine the activities of "television evangelical ministries" or "evangelical religious broadcasters" in light of the applicable federal tax laws.

The organizations of which I am a part, the Crystal Cathedral Congregation of the Reformed Church in America and the Robert Schuller Ministries (which I will refer to individually as "the Congregation" and "the Ministries", respectively, and collectively as "the Church"), recognize the important responsibility the Subcommittee on Oversight has to address questions of Federal tax policy, tax administration and compliance with Federal tax laws. We also understand, as acknowledged in your July 2nd letter, that the PTL scandal has provided the stimulus for holding this hearing at this time.

I am flattered that you would find my views to be of interest, although I believe the technical topics in which you have expressed interest are somewhat far afield from my pastoral responsibilities and would be more properly addressed by those officers of the Church who are responsible for such matters.

As I told you in a recent meeting in your office, I regard an invitation of such formality from a representative of our Government as a very serious matter and one entitled to great respect. In fact, it was out of this respect that the Church directed Mr. Andrews and me to fly to Washington and meet with

"A Place Where People Care About People"

you and others to ascertain the nature of the inquiry and the nature of the response solicited from the Church. As you know, we had a very full day of meetings with you and other members of the Subcommittee, as well as other Congressmen and Senators. The trip was very worthwhile and enlightening, and I enjoyed meeting you and the other public servants.

Upon our return, Mr. Andrews and I reported to the Executive Committee and several members of the Board of Directors and of the Consistory of the Church and received their counsel. I have been asked to respond to your invitation in this letter and to explain the views and concerns of the Church at such length as is neessary, as well as to respond to the specific questions about our organizations posed in your letters. For these reasons, we request that this letter be made a part of the record of the October 6th hearing.

The Church has two primary and very serious areas of concern. It has strong reservations about the propriety of its representatives being included in the particular group of organizations which has been invited to appear to testify at this hearing. It also has reservations about the climate in which these hearings have been scheduled and will take place. Please permit me to explain.

1. Category of Witnesses Invited to Testify.

As a result of the investigatory trip Mr. Andrews and I took to Washington, the Church has concluded that a fundamental and very significant difference between it and the other types of organizations which have been invited to send witnesses appears to have been overlooked.

The Church is not a "television evangelical ministry" or an "evangelical religious broadcaster." It is a church, a part of the oldest mainline Protestant denomination in the United States -- the Reformed Church in America founded in 1632. It is not an organization principally engaged in evangelism, but rather, is organized as a church meeting the needs of its congregation. I am a pastor, a graduate of a recognized and fully-accredited seminary, and ordained by a mainline Protestant denomination, and I have specific responsibilities to the denomination and to my congregation. As is explained later, I am accountable to various hierarchies within my denomination as well as to independent Boards of Directors and to my congregation.

On the other hand, most of the ministers that the Subcommittee has invited to the hearing are independent evangelists, not part of a mainline denomination. Most are not accountable to any mainline denomination and operate through the television medium in the classical sense of an evangelist. Webster's dictionary definition of an evangelist provides: "An occasional preacher having no fixed charge;" "a traveling missionary;" or "a minister or layman among various Protestant denominations who goes about from place to place preaching at special services to awaken religious interests."

Certainly, my ministry includes evangelism through the preaching of the Gospel of Jesus Christ. However, I am a pastor to a local congregation, whose sermons and church services are broadcast over television in the same manner that many other ministers and priests have their services broadcast. My Church is simply blessed with having its church service viewed by more people within the United States than any other church service. However, the broadcasting and widespread reception of my church service does not transform me into an independent television evangelist. Rather, I remain a pastor of a local congregation and an ordained minister within a mainline Protestant denomination.

In a nutshell, the Church simply is not comfortable with the notion of my appearing on its behalf at the hearing scheduled by the Subcommittee, because most of the witnesses that you have invited are not members of a mainline denomination. In view of the confusion that has arisen in the past with respect to the controversies concerning independent television evangelists, my Church has requested that I not appear at this time, because it is afraid that my identity as as an ordained minister within a mainline Protestant denomination will be lost in the subsequent media coverage of the hearings.

Thus, the Church has requested that I not appear at the present hearings, but await the Subcommittee's holding of hearings that invite other mainline religious denominations, such as the Catholic, Methodist, Presbyterian, Mormon, and many other churches. If the Subcommittee should decide to hold such hearings involving mainline religious churches, which only incidentally happen to use broadcast media, and at which representatives of most of these denominations agree to appear, the Church would be fully supportive of my appearing as well. In the meantime, since the Church does not believe it falls within the category of organizations to which these hearings are limited, I have been instructed to regretfully and respectfully decline to testify.

Please understand that this does not reflect the slightest desire not to cooperate or not to respond fully to any request for information. In fact, as is provided below, the Church has more than fully answered the questions posed in your letters with respect to both the Congregation and the Ministries.

2. The Climate in Which the October 6th Hearing is Taking Place.

In addition to being concerned about the category of witnesses invited to testify, the Church also expresses concern about the climate in which the October 6th hearing is taking place. The Church, and I personally, have a few additional, serious concerns which I hope you will permit me to express briefly.

As indicated in your letters, the hearings are prompted by the PTL scandal. However, the Government and the people must be careful not to overreact to a specific circumstance that has generated widespread criticism. Part of the responsibilities of living in a free society is to endure abuses that may arise because of fundamental freedoms that are held to be inviolate. One example is the protection afforded the news media. Under the First Amendment protection of "free speech," our Courts have permitted the publication of inaccuracies and falsehoods, particularly as they relate to "public figures." These abuses must be endured in order to assure the citizens of the United States free and open access to information. I would suggest that the infrequent abuses which occur in the practice of religious freedom should not give rise to an hysterical response that would place in jeopardy the single most fundamental principle upon which this Nation was formed, the ability to worship and engage in religious practices without censorship.

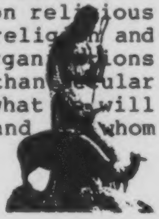
In this regard, we would like the Subcommittee to consider the following points:

a. Television ministries cannot be singled out for special treatment.

There is no bright line between television ministries and other religious organizations. Television is merely one means of communication, as is radio, as is mail, and as is speaking to a congregation of any size. To attempt to discriminate among churches according to the principal medium of communication they employ is to take a long step down the slippery slope toward loss of freedom of religion.

b. All religious organizations are accountable.

Accountability is one of those terms which everyone must endorse, and no one can oppose. The question here, however, is what kind of accountability should be imposed upon religious organizations. It is inherent in the freedom of religion and the separation of church and state that religious organizations will be far less accountable to the Government than secular organizations. Each individual is free to choose what [illegible] will believe, how he will worship, where he will worship, and [illegible] whom



he will contribute. Moreover, a would-be religious leader does not have to be licensed to display his wares to the public.

The ultimate test of accountability for any religious organization is the extent to which its members perceive that it fulfills their spiritual and other needs. If a religious organization comes to lack integrity in its fund raising or in its use of funds, ultimately its members and contributors will vote with their feet and their pocketbooks, and it will fail. The Government must not and cannot deny the individual freedom of worship.

In a free society, some abuse is inevitable. However, we must resist the temptation to "throw the baby out with the dirty bath water." Even without new legislation, most of those who materially abuse ultimately will be held accountable. No matter how many new laws are passed, a certain amount of abuse cannot be prevented. This, as in the case of a free press, is one of the prices that we pay for the liberties in a free and open society.

c. The Government and the People should be patient and avoid hysteria.

Looking back at the history of our country, it is easy to see how a type of national hysteria can spread, infecting otherwise rational people, in response to certain types of stimuli -- usually fears. McCarthyism is the most obvious example. Seeing this phenomenon as it happens, however, seems to be more difficult.

The PTL scandal has confirmed the prejudices, cynicism or suspicions of a great many people. Obviously, an evil of sorts was afoot in PTL. There is a natural tendency to want to stamp that evil out there and in other places where it might be hiding. There is also a tendency to overreact in the heat of the moment.

But let's keep this in perspective. The Bakkers are no longer in control of PTL; they have been ousted. They have been held up to public ridicule. Their organization is in the hands of other, presumably more responsible, leaders who are setting right what was wrong. Since it appears that laws may have been broken, appropriate investigations are proceeding, and presumably punishment will be meted out if found warranted. The fact that legal punishment is not summarily administered simply flows from the necessity of due process in investigating charges of this type and from the necessity of insuring that fundamental freedoms of worship are not violated.

Moreover, other organizations are undergoing public scrutiny and self-scrutiny which will make them more careful to avoid the mistakes and types of excess -- and embarrassment -- that occurred in PTL. In other words, the problem is being resolved -- and without a religious police force. It would be a serious mistake to embark on a compulsive and inevitably futile quest for measures to absolutely prevent the recurrence of this kind of incident. Religious freedom, one of our most precious and fundamental American rights, could easily be compromised and abridged.

We ask the Subcommittee to carefully consider the path upon which it has embarked with the scheduling of the October 6th hearing. We applaud its efforts to respond to a public outcry, but caution that a rational approach must be undertaken in order to insure that religious persecution, similar to that which drove the Pilgrims to the New World, does not repeat itself within the history of this fine and free Nation.

3. Responses to Specific Questions of the Subcommittee.

Although the Church has the concerns and reservations briefly explained above, we do want to cooperate to the fullest extent possible that will not infringe upon the fundamental rights of freedom of religion. In this vein, we offer to the Subcommittee the following responses to the specific questions that were posed to us in your September 15th letter:

(1) What is the classification of your television ministry organization(s) for Federal tax purposes?

The Congregation is a church and is classified as a Section 501(c)(3) and 509(A)(1) organization. The Ministries is a Section 501(c)(3) and 509(A)(3) religious organization. The Ministries was organized for the express purpose of broadcasting the church services of the Congregation and for providing other ministerial outreaches of the Congregation. In this regard, the Ministries has provided financial and many other modes of support for the Congregation. However, we should mention that our tax attorneys have recently advised us that the Ministries would appear to be more correctly classified under Section 509(A)(1) as a church.

(2) Do you file annual information returns (Form 990) with the Internal Revenue Service? Do you make financial reports available to the public? Do you undergo a regular independent audit?

The Congregation, as a church, does not file annual information returns or any other return with the Internal Revenue Service, other than Form 941, with respect to employee withholding taxes and other such similar returns and reports. The Congregation does not undergo audit by outside independent auditors, but does undergo regular internal audits. The Congregation prepares a budget which is approved each year by the Consistory and for which the officers of the Congregation have responsibility. The annual budget, together with an accounting of revenues and expenses, is publicized to the Congregational members on at least an annual basis. Annually, a full financial report and all minutes of all Board meetings must be submitted to an Audit Committee made up of members of the Classis of California.

With respect to the Ministries, an annual information return (Form 990) is filed with the Internal Revenue Service. The Ministries does undergo an annual audit by outside independent auditors, Coopers & Lybrand. The financial reports are made available to the public. In the past, the reports have been summarized for general distribution to the public, but the complete reports have been available and distributed in response to specific requests.

(3) In what activities does your television ministry engage? Are any of these activities considered to be unrelated business activities and reported to the Internal Revenue Service? What activities are conducted in for-profit entities?

The Congregation does not engage in a television ministry except through the Ministries. Thus, this question is directed only to the Ministries. The activities of the Ministries include the broadcast of the church service of the Congregation on a weekly basis throughout the United States and in many other parts of the world. In addition, the Ministries operates renewal centers in California and Hawaii which provide a basis for physical, mental, and spiritual renewal. The centers have hosted international conferences of ministers and are supported by public and private donations. In addition, the Ministries makes available to its viewers and the public specific religious materials, including books, video cassettes, audio cassettes, musical cassettes and records, and other materials, which are designed to promote and nurture the spiritual well-being of the individual and to disseminate the Gospel of Jesus Christ. In addition, the Ministries publishes a magazine several times a

year, *Possibilities*, which is also designed to provide inspiration and to nurture the spiritual development of the individual. Certainly, the Ministries engages in a number of activities on a less frequent basis, such as the hosting of a fund-raising banquet for the benefit of the Burn Center at the University of California-Irvine, as well as promotes missionary outreaches throughout the world. The Ministries has a separate division that broadcasts the Congregation's church services in Australia and has a sister nonprofit religious corporation in Canada which also broadcasts the Congregation's church services in Canada.

The Ministries does not engage in any activity that it considers to be an unrelated business activity.

Neither the Congregation nor the Ministries engages in any activities that are conducted in for-profit entities. Obviously, services and materials are purchased in the commercial marketplace for its activities, but the Congregation and the Ministries do not control any for-profit entities. The only exception to this statement is a company which was organized as a for-profit corporation for the purpose of acquiring the real estate upon which the Congregation's and Ministries' Family Life Center, Sunday School educational building, and Youth Ministry buildings will be constructed.

(4) What governing procedures insure that tax deductible contributions are used exclusively for exempt, and not private, purposes?

In order to answer the above question, it will be necessary to examine in some detail the "governing procedures" under which the Congregation and the Ministries have been organized and operate. First, with respect to the Congregation, the Congregation is one local church within a mainline Protestant denomination, the Reformed Church in America ("RCA"). I serve as the Founding and Senior Pastor of that church. In order to be an ordained minister within the RCA, it was necessary for me to complete an undergraduate degree in college and to complete my education at a theological seminary that was affiliated with the American Association of Accredited Theological Schools. After completing my education, I was required to be interviewed and tested by a Classis of the RCA. The Classis is the official title given in the RCA denomination to the equivalent position of a "Bishop" in other denominations. After successfully completing my interview and testing by the Classis, I became an ordained

minister and had to make a formal Declaration as well as an Attestation with respect to the beliefs and policies of the RCA denomination.

In 1955, I was "called" by the RCA to start a church in California. In 1955, I traveled to Orange County and began my ministry, which has resulted in the establishment of the Congregation. The Congregation has over 10,000 members.

The governing procedures of the Congregation are all prescribed in our denomination BOOK OF CHURCH ORDER refined over 359 years. This BOOK OF CHURCH ORDER establishes the makeup of the church Board and lines of full and open disclosure to the higher judicatory of the denomination. Furthermore, as an installed minister of this denomination, I am subject to call at any hour of any day and must, without resistance or restraint, be prepared to answer to my higher church legal authorities any questions on not only my handling of the local congregation, but also on any other of my private or public affairs or any para-ecclesiastical activities in which I may be directly or indirectly involved. Failure to comply could mean my expulsion. The governing procedures include the establishment of a Consistory, which is equivalent to a Board of Trustees or Board of Directors. The Consistory is self-perpetuating in that it elects its own members. As the Senior Pastor, I report directly to the Consistory, and I am under its control.

In addition, the Consistory reports directly to the Classis of California. In turn, the Classis reports to the General Synod. The General Synod is the highest assembly and judicatory of the RCA. The General Synod exercises superintendence over the interests and concerns of the whole denomination and appellate supervisory power over the acts, proceedings, and decisions of the lower entities within the church.

From the perspective of the Congregation, the Consistory and officers of the Congregation have the primary responsibility for insuring that funds collected as donations to the Congregation are used exclusively for exempt, and not private, purposes. I exercise no individual control over the application and use of the funds. The Consistory has full responsibility and control with respect to the establishment of budgets and allocations of funds. Obviously, the Consistory delegates the day-to-day responsibility in the use of funds to the officers of the Congregation. In this regard, perceive that the Congregation is

no different from any of the mainline religious denominations with respect to the fiscal responsibilities which are exercised by its officers and Consistory or Board of Trustees.

With respect to my position as the Senior Pastor, I report directly to the Consistory and also report directly to the Classis of California. All ministers within the RCA are subject to the government and discipline of the particular Classis of which they are a member. Thus, I have personal accountability to my local Congregation. I am also accountable to the Classis (or Bishop of the denomination), which has the power to remove me from my post. Furthermore, in our church law, a minority of only one in my Consistory has the right to appeal to a higher judicatory - the Classis. Boards of independent ministries not connected with the Roman Catholic or mainline Protestant denominations do not have this protection. If a minority in a local Board has no higher authority or judicatory to which they can appeal a perceived or actual error of actuality or judgment, they have no further recourse.

With respect to the Ministries, additional and separate rules apply. First, I serve as the Chairman of the Board of Directors, an office to which I was elected by the Board of Directors. However, since I am an ordained minister within the RCA, my conduct as Chairman of the Ministries is subject to review and discipline on the part of the Consistory and on the part of the entire Classis. Thus, substantial discipline and governing procedures are applied to the Ministries on a de facto basis because of my leadership position within the Ministries.

The Ministries has a Board of Directors consisting of 20 members. Three of my family members, my wife, my son, and myself, are Directors. In addition, two other employees of the Ministries are Directors. Thus, five of the 20 Directors are paid by the Ministries and 15 of the 20 are completely independent outside directors. The Directors receive no compensation whatsoever, and personally pay for their expenses in traveling from various parts of the United States and the world (because it is an international Board of Directors, having representatives from Australia and Canada). The Board of Directors is self-perpetuating in that it elects its own members, in the same manner that the Consistory is self-perpetuating.

As Chairman, I report directly to the Board of Directors as do all other officers of the Ministries. The officers are elected on an annual basis. The members of the Board of Directors, on which I am quite proud to have outstanding Christian men and women from throughout the world, take time from their busy schedules to oversee the conduct of my international ministry. The Board of Directors establishes all of the central policies for the Ministries and oversees every facet of the Ministries. The Board of Directors establishes my compensation, as well as the compensation for all persons related to me and for all of the senior management positions. The Board of Directors has appointed an Executive Committee, consisting of Directors and Officers of the Ministries, to act on its behalf between the meetings of the Directors, which occur three or four times per year.

In addition, the Board of Directors has established an Audit Committee. The Committee is charged with having oversight responsibilities with respect to all payments to senior management, all employee expense reimbursements, all fund-raising activities, all receipts of gifts and donations, all accounting and reporting procedures, and all internal and external audits conducted upon the Ministries. The Audit Committee consists entirely of "outside" Directors and is chaired by a Director who is also a CPA. In addition, the Committee consists of an independent CPA and independent legal counsel to assist in the fulfillment of the responsibilities placed upon it by the Board of Directors. The Audit Committee reports directly to the Board of Directors.

In addition to having an independent Board of Directors, Executive Committee and Audit Committee, the Directors elect officers each year. These officers include a Chairman, Vice-Chairman, President, Secretary, and Chief Financial Officer. Each of these officers report directly to the full Board of Directors. The officers and senior management have the responsibility of preparing budgets and managing the day-to-day operations of the Ministries. In addition, the written policies of the Board of Directors and Audit Committee are implemented by the officers and senior management.

With respect to the use of contributions, donations, and other revenue received by the Ministries, specific procedures have been established in order to insure that the funds received are used only for the purposes for which they were donated. In fact, most funds that have been restricted to specific purposes are placed under the control and supervision of the Crystal Cathedral Endowment Fund, which is a separate nonprofit, religious corporation charged with overseeing, investing, and disbursing restricted funds. The Endowment Fund has an independent

Board of Directors consisting of members from the Congregation's Consistory and Ministries' Board of Directors. Restricted funds are placed in this separate Endowment Fund in order to insure that there is no possible way for misuse of those funds to occur.

In addition to the segregation of funds that have specific restrictions, procedures have been established within the Accounting and Audit Departments of the Ministries to insure that funds are utilized for the purposes for which they may have been solicited or were received. For example, separate accounts are established and monitored. Internal audits are periodically undertaken by an independent CPA at the request of the Ministries' management and Audit Committee. In addition, an independent accounting firm, Coopers & Lybrand, prepares audited financial statements on an annual basis. The internal audits and the annual outside audits are reported directly to the Board of Directors.

In addition, the Ministries has taken special care to insure that no part of the Ministries' revenues may inure for the benefit of private individuals. All forms of compensation and benefits paid to any Director, officer, or anyone related to them, are presented for review and approval by the full Board of Directors. All expense reimbursements are subject to approval by the Chief Financial Officer and to review by the Audit Committee of the full Board of Directors. Any transaction that may involve a Director or officer, or anyone related to them, is specifically reviewed by the full Board of Directors for approval. Thus, every effort is made to insure the integrity of the stewardship which is exercised by the Ministries over funds donated to it.

In an effort to insure the highest level of integrity, my wife, son, and I receive no royalties or any other extra compensation of any nature from any of our books, tapes, or other materials which are distributed by or through the Ministries. Our auditors have advised me that the royalties on sales of books that my family has forgone exceed $30 Million. Although we could receive royalties on such sales, we firmly believe, as a matter of personal integrity, that we should not accept any royalties from the Ministries or the Congregation or from sales by publishers to them.

In addition to the internal procedures described above, the Ministries also files Information Returns (Form 990) with the Internal Revenue Service. Also, the Congregation and the

Ministries enjoy exemption from California State property taxes. Extensive applications, including financial disclosures and specific uses of all of our properties, must be made within our applications for property tax exemption. For the last few years, the Congregation and the Ministries have enjoyed full exemption from property tax for all of its properties. Thus, both the Congregation and the Ministries are subjected to detailed scrutiny by the California State taxing authorities, including the Orange County Assessor's office and the State Board of Equalization. We are most pleased that we have been found to be within strict compliance of the law by these governmental agencies.

We hope that the foregoing description of our internal and external procedures will provide the Subcommittee with an understanding of the level of accountability exercised by the Church, as well as by myself on an individual basis.

4. Conclusion.

In conclusion, I would hope that the foregoing information provided to the Subcommittee will be of benefit to it. However, I would like to remind the Subcommittee of the deep concern of our founding fathers for the recognition of how important the free practice of religion has been, and continues to be, to this Nation. This Nation and the denomination of my Church were founded by Pilgrims seeking a New World where they could have the individual freedom in the practice and exercise of their religious beliefs.

As elected public officials, the members of the Subcommittee, as all members of Congress, are charged with the responsibilities of protecting the liberties and form of government established by our Constitution. Certainly, during the bicentennial celebration of our Constitution, it would be appropriate to remind the Subcommittee of the legacies handed down from generation to generation by our people and our leaders in the preservation of those liberties insured and protected by the Constitution.

It is not by accident that the protection for the free exercise of religion is contained in the First Amendment to the Constitution. The importance of that liberty, as devised and held by our founding fathers, is clearly exhibited by the fact that Thomas Jefferson requested that acknowledgement be provided to him on his tombstone as the author of the Constitutional provisions separating church and state.

We applaud the efforts of the Subcommittee to provide for the public good, but we must admonish the Subcommittee to recognize the wisdom and heritage of our Country in realizing that the public good primarily consists in the protections of the fundamental liberties and inalienable rights of the people of the United States. Not least among these liberties is the free exercise of religious beliefs.

If the Subcommittee should require additional information from our Church, please let us know.

In Christ's service,

Dr. Robert H. Schuller

RHS/mh

Supplemental Comments by
Donald H. Chase, Esq.
Director of the Steering Committee
for the
Fundamentalists Anonymous Legal Task Force

These comments are submitted to the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, in connection with its hearing on the application of Federal Tax Rules to Television Ministries, and in response to many of the statements that were made at the hearing on October 6, 1987. Through these comments, I hope to expand upon the legal basis for the prior suggestions of Richard Yao to this Committee and to focus constructively on the reasonable steps which this Committee can and should undertake to assure the public that the tax laws are being effectively applied to television ministries, and to prevent the recurrence of the notorious abuses by some television ministries which have recently come to light.

A. The Fundamentalists Anonymous Legal Task Force

I am a practicing lawyer in New York City and, along with other attorneys, I have devoted a considerable amount of my time and legal skills without compensation to the Fundamentalists Anonymous Legal Task Force. The Legal Task Force was created as a natural outgrowth of Fundamentalists Anonymous ("FA"), a national not-for-profit organization which was formed as a support system for people who have left or are leaving the fundamentalist/pentecostal fold and to educate the public on the dangers posed by the fundamentalist mindset to us as individuals and as a society. As horror stories were told by some of the more than 30,000 members of FA, it was determined that a legal support network was necessary to address the severe problems encountered by many religious consumers. The Legal Task Force serves the following purposes: to increase the accountability of fundamentalist organizations, to deter future abuses by such organizations, and to protect and expand the rights of religious consumers.

The Legal Task Force is essentially a new consumer organization, which serves primarily as a clearing house for legal complaints against religious organizations and officials, but also handles on a *pro bono* basis legal actions, *e.g.*, the representation of an unofficial committee of hundreds of PTL Lifetime Partners who want their money back. The hundreds of legal complaints to the Task Force cover a broad spectrum of allegations, including sexual misconduct, financial misconduct, religious malpractice, fraud, undue influence, and breach of confidentiality.

With the recent scandals concerning the television ministries, there has been a dramatic shift in public perception and awareness of the abuses committed by a small number of religious media darlings. Much of our work to date has understandably centered on the public abuse at the hands of these ministries. The end result of that work is to be found in the following comments which we hope this Committee will seriously consider.

The creation of the Legal Task Force marked a milestone for the religious consumer. For the first time, there was an organization ready to listen and help the religious consumer deal with legal complaints against religious institutions and officials. All too often, government officials and civic organizations bend over backwards not to confront abuses by religious organizations, for fear of being labeled "anti-Christian" or "anti-religious". The religious consumer is thus left to fend for himself, unaware that he even has legal rights in most cases.

None of the attorneys working with the Legal Task Force or the directors of FA are against religion. All of us have a deep appreciation for the freedoms accorded by the first amendment and the fundamental separation of church and state. But Congress must have the leadership to create and enforce laws which responsibly balance the public's right to know with the religious freedoms incorporated in the first amendment. By abdicating such responsibilities, Congress will allow the abusive practices of some television ministries to continue unfettered and undaunted by the empty words of political speeches.

B. The Television Ministries

From the comments of many of the televangelists who paraded before the Committee on October 6, 1987, it is clear that they seek to intimidate the Committee into refraining from action because of the alleged damage to the first amendment freedoms of all religious organizations. In this isolated period of scrupulous media attention on the conduct of television ministries, these ministries thus seek to hide under the umbrella of the religious freedom of all churches and to retreat to the words of our founding fathers in support.

Not only is this attempt disingenuous when contrasted with many of their prior statements regarding the separation of church and state (and the open desire of some of them to create a theocracy), but it also ignores the very facts which make their ministries distinct from other religious organizations and subject to greater scrutiny by the government and the public. Our founding fathers certainly did not envision a day when the electronic media would allow religious ministries into the homes of millions of vulnerable and impressionable citizens. While the first amendment protects the religious beliefs of individuals and groups from government scrutiny or intrusion, it does not and was never intended to confer immunity upon the unscrupulous predators of the airwaves who manipulate the best instincts of the religious consumer.

The multi-billion dollar religious broadcasting industry has little, if any, imposed regulation or accountability. The television ministries present problems heretofore unencountered: some groups justifiably perceive political threats and ironically the erosion of the separation of church and state by a gradual imposition of the political and religious agenda of these ministries; others worry about the vulnerable people who are all too willing to believe what they hear and whose trust is easily abused; others are rightfully concerned that these ministries merely promote individuals as celebrities rather than religion and that they are commercial or political as opposed to religious enterprises.

In contrast to the traditional local church or synagogue, where the members of the congregation have personal contact with each other and their religious leaders, the only real contact between a television minister and his "congregation" is through the television screen or a fundraising letter. Contributions to these ministries are often collected under false pretenses (such as for highlighted social programs) when the bulk of the money is simply used to pay for the cost of continuing to buy air time. The Reverend Falwell indicated to this Committee that the transfer or diversion of funds intended for one purpose to another entirely different purpose presents an ethical rather than a legal problem. Mr. Falwell is mistaken. Such conduct constitutes fraud and the Courts have repeatedly held that religious organizations and officials may be held legally liable for such frauds. See, e.g., Cantwell v. Connecticut, 310 U.S. 296, 306 (1940); Schneider v. State, 308 U.S. 147, 164 (1939). See also United States v. Ballard, 322 U.S. at 95 (Jackson, J. dissenting); Van Schaick v. Church of Scientology of California, 535 F.Supp. 1125 (D. Mass. 1982).

Reverend Falwell is not alone in his apparent ignorance of the law. Since television ministries lack the personal relationship between the ministry leaders and the congregation, there is an innate potential for corruption and financial abuse. The self-monitoring traditionally available to members of a local religious organization is entirely absent with regard to these ministries. The religious consumers must rely on the information transmitted to them over the television screens. They have no effective means of overseeing those who administer the ministries or verifying the information given to them. The television ministers, in turn, speak to a faceless and nameless audience to whom they need not report anything other than what they choose. Under these circumstances, it is easy to envision why the public is demanding that television ministries be publicly accountable.

The television medium is a powerful tool and because there are a limited number of frequencies, access to this medium carries with it certain public obligations. As will be clear in the next section, Congress has the constitutional right to impose certain requirements on television ministries which would not apply to other religious organizations who do not solicit funds over the airwaves. The Committee should not be drawn into the attempt by television ministries to make the hearing a confrontation between the government and all religions. It is not and certainly need not be. Most religious organizations would agree that the privilege of access to television airwaves should carry with it public obligations. The public has the right to disclosure and the Courts say that Congress may constitutionally require it. All that is left is for Congress to stand up and accept its responsibility to create the tools to enforce existing laws and to amend the laws to make them a more effective means of ensuring public accountability.

C. The Broadcast Media Has Limited First Amendment Protection

Contrary to the implications of many witnesses before the Committee, while the first amendment free exercise and establishment clauses provide the absolute freedom to believe, they do not provide the absolute freedom to act, even if those actions are based upon religious beliefs. In the landmark case of Cantwell v. Connecticut, 310 U.S. 296, 303-04 (1940), the Supreme Court held:

> The constitutional inhibition of legislation on the subject of religion has a double aspect. On the one hand, it forestalls compulsion by law of the acceptance of any creed or the practice of any form of worship . . . On the other hand, it safeguards the free exercise of the

> chosen form of religion. Thus the Amendment embraces two concepts -- freedom to believe and freedom to act. The first is absolute but, in the nature of things, the second cannot be. *Conduct remains subject to regulation for the protection of society*. (emphasis added)

The Courts have differentiated the treatment of broadcast media for first amendment purposes. As one Court articulated in the case of a television evangelist:

> "A greater degree of conflict with traditional first amendment principles is tolerated with the broadcast media because of the limited number of available frequencies . . . With respect to the operation of broadcast facilities, the Supreme Court has held that the right of viewers and listeners, not that of broadcasters, is paramount. An allegation of fraud, even if not sufficiently specific or reliable generally to justify inquiry into solicitations made by a congregation in church, may nevertheless be sufficient to justify inquiry into broadcast solicitations."

Scott v. Rosenberg, 702 F.2d 1263, 1272, 1275 (9th Cir. 1983) (citations omitted). The Supreme Court has stated that "of all forms of communication, it is broadcasting that has received the most limited First Amendment protection." *FCC v. Pacifica Foundation*, 438 U.S. 726, 748 (1978). Broadcast frequencies are a "public trust," and "differences in the characteristics of [the broadcast] media justify differences in the first amendment standards applied to them." *Red Lion Broadcasting Co. v. FCC*, 395 U.S. 367, 383, 386-89 (1969). *See Buckley v. Valeo*, 424 U.S. 1, 49 n. 55 (1976); *Columbia Broadcasting System, Inc. v. Democratic National Committee*, 412 U.S. 94, 101 (1973).

The above cases illustrate that burdens which may not be properly placed upon all churches may nonetheless be constitutionally imposed on television ministries. The Committee should recognize that not all burdens on religion are unconstitutional, an infringement on religious liberty may be justified by the need to accomplish an overriding governmental interest. *United States v. Lee*, 455 U.S. 252, 257 (1982); *Wisconsin v. Yoder*, 406 U.S. 205, 215 (1972); *Sherbert v. Verner*, 374 U.S. 398, 406 (1963). The Supreme Court has indeed recognized that the government "*has a significant interest in protecting its citizens from abusive practices in the solicitation of funds* for charity, and that this interest retains importance when the solicitation is conducted by a religious organization." *Larson v. Valente*, 456 U.S. 228, 248 (1982) (emphasis added). In the latter case, the Supreme Court stated that the burdens of registration and financial reporting (including extensive annual reports which detail, among other things, total receipts and income from all sources, costs of management, fundraising and public education, and transfer of property or funds) are not intrinsically impermissible if imposed evenhandedly.

D. Application of The Current Tax Laws and Proposed Changes

The testimony of Lawrence B. Gibbs, Commissioner of the Internal Revenue Service, clearly illustrates some of the existing problems with respect to the application of current tax laws to television ministries:

> "The tools used to administer the tax laws with respect to other exempt organizations are not available for churches. No application for tax exemption is required, no annual returns need be filed, and the substantial hurdle of the 'reasonable belief' requirement must be met by the Service to initiate an audit inquiry . . . The fundamental issues for tax administration in this area are the appropriate degree of public accountability by religious organizations soliciting public contributions and the ability of the Service to audit these organizations to ensure compliance with the tax laws . . . [U]nder current law the Service is limited by the information it presently receives from churches and the restrictions on our ability to audit churches."

Gibbs Statement at 19-20. Other obstacles loom as well, such as the deferential, ineffective and insensitive manner in which the IRS addresses the particular abuses of television ministries. For example, as early as 1981, the IRS was investigating the PTL and its finances. A confidential 1985 IRS report in fact recommended the revocation of PTL's tax-exempt status, retroactive to 1980, on the ground that a substantial part of PTL's revenues was personally benefitting the Bakkers and other top aides of the Bakkers. (Time Magazine, 8/3/87). Yet the public was unaware of the problem and hundreds of millions of dollars were subsequently contributed to the PTL in part as a result of the public's assumption that the PTL was fine, indeed the PTL proudly displayed its ECFA good housekeeping seal of approval.

As a first and necessary step, Congress must require television ministries to submit sufficient information to allow the Service to perform its function and to ensure public accountability. Currently, "churches" and certain church affiliates are not required to file an exemption application with the IRS or to receive a determination of tax-exempt status from the IRS, or to file annual information returns with the IRS. Section 508(c)(1)(A) and Section 6033(a)(2)(A)(i). In the case of television ministries who solicit funds over the airwaves, the law should be amended to state that such ministries are not "churches" for the purposes of compliance with the Internal Revenue Code or Treasury regulations. Accordingly, they will at a bare minimum be required to file both the exemption application and the annual information returns. In order to demonstrate to the public that these organizations are accountable, however, and because of their privileged use of the airwaves to solicit funds, televangelists should be required to make public disclosure of audited and detailed financial statements for the past five years. Of course, a similar disclosure should be imposed upon all Section 501(c)(3) organizations who solicit funds over the airwaves. This requirement of public disclosure of audited and detailed financial statements should then be continued on an annual basis.

The above amendment to the tax laws represents a justifiable extension of the Form 990 information already required by the Code. Such requirements need not and should not be imposed on all churches but rather should be limited to 501(c)(3) organizations who solicit funds over the airwaves. Most responsible organizations should have no objection to such a minimum disclosure requirement, indeed most of the witnesses before the committee seemed prepared to do this of their own accord. Moreover, as noted in the previous section, such a requirement may be constitutionally imposed in order to support the compelling government interest in assuring that tax-exempt income is used for the religious and charitable purposes intended. The privilege of access to the public airwaves further justifies the exaction of a fair measure of public disclosure of financial information.

Our second recommendation is that 501(c)(3) organizations which solicit funds over the airwaves be required to have independent governing boards, that is not more than one third of the board may be family members and insiders. This requirement is necessary to ensure compliance with the prohibition against private inurement that otherwise threatens when complete control of a ministry is usurped by one individual. Section 501(c)(3) organizations are accorded tax-exemption because they are organized and operated to benefit the public by accomplishing a particular charitable, religious, scientific or educational purpose. A tax-exempt organization may not be "organized and operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly, or indirectly, by such private interests." Treas. Reg. § 1.501(c)(3)-1(d)(1)(ii). See Church of Scientology of California v. Comm'r, 83 T.C. 381 (1984), aff'd, 87-2 U.S.T.C. ¶ 9446, 60 A.F.T.R.2d 87-5386 (9th Cir. 1987). By requiring independent boards, Congress will be taking a significant step toward addressing the issue of "reasonable" vs. "excessive" compensation by assuring at least a facially independent review of salaries and benefits. Developing case law will, of course, further address this problem.

While further amendments to the tax laws may be in order, we believe that the above two requirements represent at least a conservative and constitutionally appropriate first step toward the public accountability of television ministries who solicit funds over the airwaves. The televangelists and their trade organizations, the NRB and ECFA, have promised as much, the public has demanded it, the Courts would surely approve it, all that is left is for Congress to live up to the Committee's promise that it would not shy away from this issue. Televangelists like Jerry Falwell claim that the arrogance is over because the media has left the television ministries naked before the public. The Reverend Falwell is wrong, for the curtain is up now and the lights are on, but soon the curtain will fall and the lights will dim and when the cameras fade out and the media turns its head, what then? We all know the answer -- it's back to business.

EFICOM is but the latest in a series of impotent self-policing public relations fronts installed by the television ministries to deflect rather than support public scrutiny. The American public and Congress have given the idea of self-policing years to work. No witness before the Commission could guarantee that EFICOM would be in place as proposed, that any or all of the NRB members would agree to comply, that any NRB member who agrees to comply would not subsequently drop out from the organization, or in short, that there is any reason to believe that EFICOM will be any more effective than its impotent twin fathers, the ECFA and the NRB. Mr. Falwell's reference to the EFICOM good housekeeping seal of approval in his remarks before the Committee has an all too familiar ring to it. Mr. Bakker proudly displayed the ECFA good housekeeping seal of approval until the end of 1986 when he left the ECFA. EFICOM is simply the latest paper tiger offered to divert the attention of Congress, the media, and the public.

The requirements which we have proposed for television ministries which solicit contributions on the air are both fair and minimal. They represent a responsible balancing of the public's right to accountability with a television ministry's right to the free exercise of religion. The privilege of soliciting contributions on the air carries with it certain basic public obligations. The above requirements represent the least intrusive of those obligations which may be exacted from television ministries. We hope and believe that they will also offer some means of protection for the rights of religious consumers.

BILLY GRAHAM
MONTREAT, NORTH CAROLINA 28757

September 30, 1987

Dear Congressman Pickle,

Thank you for your letter of September 15 inviting me to appear on Tuesday, October 6, at the hearing to be held by the Subcommittee On Oversight to review the Federal tax rules that apply to television ministries.

It would be difficult for me to appear, due in part to an unfortunate accident and complications which happened to me recently in Tokyo. I spent twelve days at the Mayo Clinic and they have advised me to take at least a month or six weeks complete rest. The accident I had is only a part of my temporary health problem.

I think I can respond directly to the four questions in your letter on which you are soliciting testimony.

Question 1: Television is only a part of the rather extensive Christian evangelical ministry of the Billy Graham Evangelistic Association (BGEA) which is classified for Federal tax purposes as a 501(C)3 organization.

Question 2: BGEA files annual information returns--Form 990--with the Internal Revenue Service. Our Association publishes printed annual reports which are available to the public and which include detailed reports on our various ministries and our finances. We undergo regular independent audits by Ernst & Whinney, one of the "Big 8" auditing firms. We have an Audit Review Committee on our Board, made up of top businessmen and chaired by Mr. Frank Coy, former Chairman of the Board of The May Company of Cleveland, Ohio. They meet regularly with Ernst & Whinney.

We have been given lengthy and extensive audits by the IRS in the last few years, the most recent of which was completed in 1986. In each instance the IRS had no suggestions.

Question 3: Our television ministry consists of approximately twelve or fifteen hours a year. Television is not our primary ministry. We are not dependent on television for our financial income and support. This ministry consists largely of filming one of our Crusades and showing it on a number of stations at prime evening time. None of the TV activities are considered to be unrelated business activities.

Many years ago we formed an organization called "World Wide Publications." Anything that we sell, etc. goes through that organization, on which we pay tax. In 1986 its revenues were about 6% of the total and produced a modest profit subject to taxation.

Question 4: BGEA is governed by a Board of Directors of twenty-seven, more than three-fourths of whom are not employed by BGEA and are principally business and professional men, educators and pastors.

There is an active nine-member Executive Committee of the Board that meets about every two months. None of them are employees of BGEA, nor do they receive any compensation. The Executive Committee is active in the setting of policies for, and managing the affairs of, BGEA. The full Board meets two or three times a year and must approve or disapprove the actions of the Executive Committee. Together with the Audit Review Committee and the entire Board, they have been meticulous in establishing and enforcing policies, procedures and practices which ensure that tax deductible contributions are used exclusively for exempt, and not private, purposes.

I hope that you find this letter responsive to the questions which you plan to address at the October 6 Hearing.

Cordially yours,

The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee On Ways and Means
U.S. House of Representatives
Washington, DC 20515

J.J. PICKLE, TEXAS, CHAIRMAN
SUBCOMMITTEE ON OVERSIGHT

BERYL ANTHONY, JR., ARKANSAS
RONNIE G. FLIPPO, ALABAMA
BYRON L. DORGAN, NORTH DAKOTA
HAROLD FORD, TENNESSEE
CHARLES B. RANGEL, NEW YORK
ANDY JACOBS, JR., INDIANA

DICK SCHULZE, PENNSYLVANIA
BILL FRENZEL, MINNESOTA
WILLIAM M. THOMAS, CALIFORNIA
RAYMOND J. McGRATH, NEW YORK

Ex Officio:
DAN ROSTENKOWSKI, ILLINOIS
JOHN J. DUNCAN, TENNESSEE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

SUBCOMMITTEE ON OVERSIGHT

DAN ROSTENKOWSKI, ILLINOIS, CHAIRMAN
COMMITTEE ON WAYS AND MEANS

ROBERT J. LEONARD, CHIEF COUNSEL
M. KENNETH BOWLER, STAFF DIRECTOR
BETH KUNTZ VANCE, SUBCOMMITTEE STAFF DIRECTOR

A.L. SINGLETON, MINORITY CHIEF OF STAFF
MICHAEL A. SUPERATA, COUNSEL TO THE MINORITY

September 15, 1987

Dr. Billy Graham
Billy Graham Evangelistic Association
1300 Harmon Place
Minneapolis, Minnesota 55403

Dear Dr. Graham:

As Chairman of the Subcommittee on Oversight of the Committee on Ways and Means, I am writing you to confirm that the Subcommittee will be holding a hearing to review the Federal tax rules that apply to television ministries. The hearing has been scheduled for Tuesday, October 6, 1987 in the Main Committee hearing room, 1100 Longworth House Office Building. The hearing will begin at 9:30 a.m.

On behalf of the Subcommittee on Oversight, I invite you and your advisors to appear at this hearing. I hope that you will be able to provide us with your views and comments as part of this important Congressional oversight hearing. If you are able to testify, I ask that your oral statement be limited to ten to fifteen minutes. Of course, additional written material may be submitted for the record.

Let me reiterate the statements in my earlier letter. Our First Amendment religious rights and freedoms must be carefully maintained and protected. This Subcommittee is charged by the Committee on Ways and Means with the responsibility of reviewing the operation of the Federal tax laws and the administration of those laws. The Subcommittee is concerned about questions regarding Federal tax policy, tax administration, and compliance with our Federal tax laws. The Subcommittee is not investigating or even questioning religious beliefs and practices. I am interested, in particular, in the Internal Revenue Service's prompt and evenhanded enforcement of the tax laws that apply to television ministries, and the ministries' interpretation of and compliance with those laws.

September 15, 1987
Page Two

I, therefore, ask you to address in your testimony the following areas:

1. What is the classification of your television ministry organization(s) for Federal tax purposes?

2. Do you file annual information returns (Form 990) with the Internal Revenue Service? Do you make financial reports available to the public? Do you undergo a regular independent audit?

3. In what activities does your television ministry engage? Are any of these activities considered to be unrelated business activities and reported to the Internal Revenue Service? What activities are conducted in for-profit entities?

4. What governing procedures ensure that tax-deductible contributions are used exclusively for exempt, and not private, purposes?

I look forward to your assistance with the Subcommittee's review and hope you will participate. Please advise me of your decision by Tuesday, September 22, 1987, so that I may plan accordingly.

I am enclosing a copy of the press release announcing the hearing. I should mention that Committee rules require that I receive 150 copies of your statement, in writing, by September 30, 1987. I appreciate your cooperation. If you have any questions, please contact Rusty Guritz, Subcommittee Counsel, at (202)225-5522.

Sincerely,

J. J. Pickle
J. J. Pickle, Chairman
Subcommittee on Oversight

JJP/rgl

Enclosure

GUINN, SMITH & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS
3408 TEXAS DRIVE
IRVING, TEXAS 75062
(214) 255-7120

October 29, 1987

Robert J. Leonard, Chief Counsel
Committee On Ways And Means
U.S. House of Representatives
Room 1102, Longworth House Office Building
Washington, D.C. 20515

Re: Congressional Hearings on Tax-Exempt Organizations

Dear Sir:

Because of the timing of my return to the United States, from a trip which had previously been scheduled relating to audit responsibilities for a particular client, I regret I was unable to attend the hearing scheduled for October 6, 1987. However, I would like to make the following comments.

The recent scandalous atmosphere created by some media ministries may have an impact on regulation of all exempt organizations. Considerable discussion is underway both within the Internal Revenue Service, Congressional Committees, and the news media concerning whether or not Congress should pass additional laws regulating public charities, especially religious organizations. Before proposing changes in regulation it is necessary to understand current regulation and the philosophy behind it.

From conversations with reporters, television commentators, and other media personnel it is apparent that there is a great deal of misunderstanding and lack of knowledge among the general public regarding rules and regulations which apply to public charities. Statements indicate a belief that there are no controls on an exempt organization or its leaders and a belief that such organizations operate without any interference by any regulatory bodies. In fact, the opposite is true.

Congress passes laws to regulate 501(c)(3) organizations, i.e., public charities. The Internal Revenue Service enforces these laws through audits of the organizations. Individual states and cities may regulate exempt organizations which operate within their jurisdictions. Many churches and ministries are subject to review by their church denominations. Other governmental agencies that may have regulatory authority over exempt organizations, especially those using the media and the mail to raise funds are:

Federal Communications Commission
U.S. Postal Authorities
Securities and Exchange Commission,
both Federal and State
Federal Trade Commission

Ultimately, the donors of an organization exert their control over the activities through control of donations.

When passing laws regarding exempt organizations, Congress contemplated that 501(c)(3) organizations, i.e., public charities, would be responsible to the general public. The donors to exempt organizations would maintain such a level of interest and participation in the activities of the organizations that there would be little need for interference by the government. For example, members of a traditional sanctuary bound local church could observe the pastor and his life style and could monitor the spending of their donations.

With the advent of media ministries such a degree of observance by the donors is not available. One of the "watch dog" activities expected to be carried out by the general public is not available. As a result, the burden of monitoring that the organization is operating for the public good falls to the Internal Revenue Service.

Television ministries do not need any more stringent or rigorous Internal Revenue Service audit procedures than those applied to ministries and churches which do not conduct television services. The method of spreading the Gospel should not affect the keeping of proper books and records. The rules for reporting revenues and supporting expenses should be the same whether donations are raised locally or through television.

Current laws place an organization in an all or nothing situation with regard to its exempt status. For example, if an exempt organization becomes involved in political activities of any kind, substantial legislative activities, or commits violations in the area of inurement of benefit to a control party, the exempt status is in danger. A control party is an officer, director, founder, donor, or trustee of the organization. The inurement prohibition means diverting net earnings into the possession of an individual in control of the organization or using assets of the organization for personal benefit. Any compensation deemed unreasonable in terms of level of services performed may be considered inurement by the Internal Revenue Service. Even a minor violation could result in possible revocation of the organization's exempt status. In fact, many tax cases state that any amount of inurement is impermissible. In John Marshall Law School v. United States (48 AFTR 2d 81-5340) a portion of Founding Church of Scientology v. United States (24 AFTR 2d 69-5187) was restated, relied upon, and used to remove the exempt status of the organization. The court stated:

> "It is our opinion, from an examination of the statute and the decided cases, that Congress, when conditioning the exemption upon 'no part' of the earnings being of benefit to a private individual, specifically intended that the amount or extent of benefit should not be the determining factor."

The court allowed zero inurement and made it clear that it is not the dollar amount of the violation, but the impermissible act itself that can result in revocation of exempt status.

Congress limits section 501(c)(3) organizations in legislative activities and prohibits such organizations from any political endorsements. The purpose of this restriction has been stated as follows. Donors to a particular organization may agree theologically but disagree politically. If political activity were permissible a candidate could possibly be elected indirectly by government support through the use of tax-free funds. It could be argued that there is no need for such restrictions. The First Amendment allows any organization the freedom to be politically involved.

In any event, interpretation and enforcement of these restrictions is not clear. Enforcement is selectively applied. Key words such as "no substantial part," "otherwise attempting to influence legislation," and "candidate for public office" are not clearly defined or are not defined at all. The result is a minister may inadvertently support particular legislative activity or a political candidate when expounding the Gospel from the pulpit. A candidate who has taken a position on an issue which is in agreement with the minister's interpretation of the Gospel may be construed to be supported by the minister's sermon.

A possible solution is to apply the "substantial" rule to both legislative activity and political endorsement. "Substantial" candidate for public office, and other key terms would have to be clearly defined within the text of the law. A minister needs to be able to preach the Gospel without the Internal Revenue Service accusing him of political activity.

In effect, the current laws regulating 501(c)(3) exempt organizations require perfection on the part of those in control of the organization. There have been cases where there was a "de minimus" amount of inurement allowed by the tax courts without revocation, but there are no rules and regulations making any amount permissible. Any violation of the standard of perfection required by the Internal Revenue Code can be the "death penalty" for nonprofit organizations.

In a world free of human error, haste, and poor judgement, perfection could be achieved. Unfortunately, the standard of perfection is not attainable, but is subject to the vagaries of human nature. There is probably no exempt organization or any other organization where an officer has never made limited personal use of the organization's assets, such as personal copies on the copy machine, use of office supplies, or a personal trip in the organization automobile. Even lost documents supporting organization expenditures can be a problem. In the absence of proper records, Internal Revenue Service automatically deems the expenditure to be inurement of benefit, if a control party is involved, or distribution not for exempt purpose, if another person is involved.

This requirement is also a possible tool for misuse by the government in audits of nonprofit organizations. Perfection of operation is impossible for any organization to achieve. The government could, therefore, selectively seek revocation of a particular nonprofit organization.

In conferring beneficial exempt status, Congress does not appear to have intended to establish a requirement of perfection because requiring perfection deprives an organization of exemption protection. By granting exempt status Congress has recognized the public good served by tax exempt religious organizations responsive to the needs of the public. Removal of exempt status would clearly harm the public good.

Loss of exemption is an unduly harsh penalty to place on an organization. It is harsh for several reasons:

1. Mistakes made through ignorance or done inadvertently place the organization at risk.
2. It is highly unfair to the donors contributing to a legitimate organization and to those persons receiving the benefit of the program services of the organization.

Even a minor offense by a control party of an exempt organization could result in virtual destruction of the exempt organization due to imposition of taxes, loss of donor credit, and termination of the organization's ability to provide program services, religious broadcasting, educational services, etc. to the recipients of their outreach.

In my experience working with hundreds of ministers of churches and church organizations I have found, with few exceptions, that they are totally dedicated, hard working, and consumed with the desire to carry out their mandate from God to minister to the spiritual needs of their local or television congregations. My firm provides services to ministers and churches from a variety of denominations, and while I may not always believe as my clientele, I believe they believe the theologies they espouse.

Many ministers work considerably longer than the expected 40 hour week and receive less than deserved compensation. Some ministers voluntarily reduce the salaries set by their independent Board of Directors if there is a hint of possible public criticism.

The general public sometimes does not realize or forgets that although churches exist primarily to serve their exempt religious functions, their very existence also benefits the economic community. Churches and church organizations provide employment for thousands and spend millions of dollars in local communities. Seminars and conventions may attract tourist believers who also contribute to the local business community.

Loss of exempt status would not only affect donors and recipients of church programs, but also the economic community which may have no interest in the religious programs of the church.

Contrary to popular opinion, churches and church related organizations, even though exempt from federal tax, pay significant amounts into local government tax coffers for sales tax, property taxes, and various employer taxes. Vendors to and employees of church organizations contribute significantly to both state and federal tax revenues out of payments to them for providing goods and services.

One church client employing hundreds, not only serves its local and television congregation on a weekly basis, but also holds seminars and conventions attracting thousands. This church was the subject of a survey to determine the economic impact on the local business community. The benefit to the community as determined and reported by the independent survey was enormous.

The proper solution is not to make the rules more harsh, but to provide rules that penalize an organization and the control parties without revoking an organization's tax exempt status. The following changes would effect that solution:

1. Expenditures of an exempt organization which were deemed not to be for exempt purpose would be subject to an excise tax similar to that imposed on private foundations.

2. Violations of the exempt organization laws and regulations by those in control of an organization would result in fines and penalties to those parties without damaging the exempt status of the organization.

3. Continuing intentional violation by control parties of an exempt organization would result in mandatory resignation from the organization.

4. A time limit would be imposed for corrections of violations of exempt organization statutes.

5. The Internal Revenue Service would be extended time after the audit to monitor areas of violation to determine if corrections are being made.

6. Impermissible amounts paid to or for benefit of control parties would be repaid immediately, together with interest based on a fair market rate.

7. Control parties would be taxed on allowed personal use of any exempt organization asset.

8. Certain proposed activities would require a mandatory request for a private ruling from the Internal Revenue Service.

Gross violations in law by an organization deemed not to be operating exclusively for public benefit should face the consequences of current laws. Revocation of exempt status is the proper disposition in these cases. By imposing a less severe penalty on innocent mistakes and inadvertent errors, an organization could continue to provide needed programs and services to the recipients of the organization's outreach.

Assistant Treasury Secretary, J. Roger Mentz, noted the Internal Revenue Service's all or nothing option in a report to the House Ways and Means Oversight Sub-Committee recently. In commenting on permissible lobbying and political activities by exempt organizations he said "The Service often has few options other than to revoke a group's tax-exempt status when it is found to be in violation of the law." This comment is also on point regarding current options available with regard to other potential areas of violation by exempt organizations.

While churches are exempt religious organizations, all religious organizations are not churches. Churches have been accorded special status in the law and are subject to Internal Revenue Code Section 7611 which outlines audit procedures for church tax inquiries by the Internal Revenue Service.

Concern has been expressed regarding the non-filing requirement of Form 990 by churches. The conclusion drawn is that without this annual information return, the Internal Revenue Service is unable to monitor churches. There is no basis to this persisting belief that churches do not fall under Internal Revenue Service scrutiny. In fact, the opposite is true. Church tax inquiries under the "new" Section 7611 have been on the increase.

Adding an annual filing requirement to churches would represent a substantial cost to them. While large churches can afford an expensive bookkeeping system, the burden on small churches, who have operated effectively for decades by using only a checkbook and a cash receipts and expenditures statement to report to their members and denomination, would be prohibitive and unnecessary. With an estimated 330,000 churches in existence, there are many more small churches than large churches. The cost to the Internal Revenue Service in monitoring this many Forms 990 would be expensive. The interference in the religious activities of the churches would not serve any purpose.

The guidelines in Section 7611 are more than adequate to provide for church audits. My experience and that of my colleagues with whom I regularly communicate indicates that the Internal Revenue Service has been very active in the last two years in auditing or initiating church tax inquiries of a majority of television ministries and churches having television programing. In fact, it is obvious that many more media ministries are being or have been audited than smaller exempt religious organizations. I believe that 40 to 60 percent of the top ten media ministries have had Internal Revenue Service inquiries, while less than 5 percent of the smaller ministries (based on my clients) have been audited by the Internal Revenue Service in this time period.

In addition, it has been my experience that under audit conditions agents try to impose even more strict recordkeeping requirements on churches than contemplated by Congress. Churches and other religious organizations are expected to conform to Sections 162 and 274 requirements in substantiating expenditures. These requirements clearly relate to business deductions by for-profit entities.

Specific record keeping requirements applicable to exempt organizations are found in Revenue Ruling 56-304, 1956-2 C.B. 305, and Revenue Ruling 68-489, 1968-2 C.B. 210, and provide as follows:

> Revenue Ruling 56-304:
>
> For an organization to demonstrate that disbursements are made in furtherance of its exempt purposes, detailed records should be kept showing the following:
>
> 1. Names and addresses of all parties who receive distributions;
> 2. amount of each distribution;
> 3. purpose of the distribution; and
> 4. relationship between the persons receiving the distributions and the organization's managers, grantors, or substantial contributors, their families and corporations controlled by them.
>
> Revenue Ruling 68-489:
>
> An I.R.C. Section 501(c)(3) organization does not jeopardize its tax exemption if it gives funds to a non-exempt organization where these tests are met:
>
> 1. Funds are distributed to the non-exempt organization for specific projects to further the exempt organization's purposes;
> 2. the exempt organization retains control and discretion as to the funds' use;
> 3. the exempt organization keeps records showing that the funds are actually used for that purpose.

An exempt organization is required to follow the guidelines and requirements as established by the Service in its Revenue Rulings and Regulations. Revenue Ruling 56-304 and 68-489 are the only authority concerning the specific record keeping requirements applicable to exempt organizations. Nowhere in the Code, the Regulations, or the Revenue Rulings is reference made to any requirement that exempt organizations must abide by the record keeping guidelines and requirements applicable to for-profit organizations.

Applying the same standard of recordkeeping to for-profit entities and non-profit organizations without the same penalties is clearly inequitable. In fact, the penalties are extremely disproportionate. A taxable business who fails to meet the requirements of Sections 162 and 274 loses the deduction and possibly pays some amount of tax. A non-profit organization is in danger of losing its exempt status and, thereby, its existence.

I have been involved with numerous audits of churches and other religious organizations over the past 13 years. Most Internal Revenue Service agents have been courteous, effective, and professional at all levels, district, regional, and national. However, there have been occasions when it was obvious that the agent was extremely hostile to the religious beliefs of the organization. It appeared that this attitude caused the audit to be expanded and intensified. The organization was forced to spend thousands of donated dollars to defend minor inconsequential matters. Religious beliefs or persuasions of an agent can provide extreme bias which will affect fair treatment of an exempt religious organization or church. For this reason, increased regulation is dangerous.

Some agents have presumed newspaper articles, T.V. exposes, and other media information to be true despite the facts as reflected by the books and records of the organization. An agent with a prejudice against any particular religious organization or belief can impede the Internal Revenue Service's inquiry into an organization and can cause the organization to spend money which was donated to provide services recognized under its exempt purpose. Permanent damage can result from the publicity surrounding an Internal Revenue Service audit.

Agents seem to have a difficult time interpreting the unrelated business income provisions. Problems arise in understanding which products are functionally related to the exempt purpose of the organizations. Interpretation of gross income and allocation of expenses has also proven to be vague and undependable in the past.

Churches and other religious organizations do not often have the expertise to insure that all practices of the church are in compliance with Internal Revenue Service requirements. They must rely upon the professional advice of CPA's and attorneys.

Many times, under audit, agents have disregarded the fact that the church took a prudent approach in seeking professional advice; therefore, the church is penalized even though it followed professional advice. Now the church is put in the position of being required to seek professional advice without being able to rely upon that advice. Instead, they are expected to operate under the cloud of "second guessing" by an Internal Revenue agent.

In an effort to "inurement proof" exempt organization clients our firm makes the following recommendations:

1. The total compensation package for control parties should be reasonable for services performed and be determined based on prevailing rates for similar executive positions. It is recommended that the board member or officer whose salary is being considered abstain from taking part in the decision making process. Related parties are also expected to abstain with the

decision being made by remaining independent board members.

Reasonable compensation in an exempt organization is as difficult to determine as it has been in for-profit corporations. The numerous cases in this area attest to the difficulty the Internal Revenue Service and the courts have had. Even so, the board should establish some objective criteria to use in determining the value to place upon the unique abilities of the minister. Comparison should also be made to a position of similar responsibility in the secular world. It is reasonable to believe that if a minister devoted the same amount of time and talent to a secular business, this effort would build large companies for which the minster would be fairly compensated.

2. There should be an absolute prohibition on any interest free loans or advances from the organization. Any loans to related or control parties must be negotiated on an arm's-length basis at bank rate of interest, together with proper collateral.

3. Although not per se invalid, related party transactions should be discouraged. When they do occur, they must be on an arm's-length basis with an independently determined fair market price for goods or services.

4. If an organization has revenue from a regularly carried on, functionally non-related trade or business and meets return filing requirements under Internal Revenue Service rules, Form 990-T should be filed.

5. Any premiums, products, discounts, or coupons received by employees as a result of purchasing items paid for by the organization are property of the organization. One example is airline frequent flyer coupons for free travel.

6. Sale of any donated non-cash items to control parties is discouraged. In the event of such a sale, it must be at fair market value and proof of such value should be on file.

7. The value of any personal use of organization automobiles by any employee must be calculated as outlined by Internal Revenue Service Code Section 61 and regulations thereunder, and should be included in the employees W-2.

8. The value of any personal use of an organizations aircraft by any employee must be calculated as outlined by Internal Revenue Service Code Section 61 and regulations thereunder, and should be included in the employees W-2.

9. Ministry credit cards and charge accounts should never be used for personal charges by any employee of the organization. Any charges made by mistake should be reimbursed immediately by the party involved.

10. Although wardrobe expenses are obviously necessary for appealing television programming and wear and tear on such clothing is excessive, it is recommended that purchases of television wardrobe be made from salaries of the clothing users to avoid contention with Internal Revenue Service agents who perceive this a "gray" area subject to much controversy. Of course, it is

reasonable to expect that salaries would reflect the additional burden.

11. Any scholarships or benevolence programs must be in accordance with Internal Revenue Service rules and must not discriminate in favor of a control party or his family.

12. Accounting procedures over donations, especially cash, must be subject to strong internal control procedures. Control parties should avoid any duties involving handling of cash.

13. Organization funds should provide only insurance and retirement plans allowable under Internal Revenue Service Code.

14. Club memberships should be used only for transacting exempt organization business. Any personal benefit should be reimbursed immediately.

15. Care should be taken to properly account for all funds raised by an organization, but funds raised for a specific project must be expended only for that project and accounted for properly. Funds not expended for restricted purposes must be returned to the donor or donor permission must be requested and received to permit use of the donation for another exempt purpose expenditure. The American Institute of CPA's Statement of Position 78-10, "Accounting Principles and Reporting Practices for Certain Nonprofit Organizations" regarding accounting for restricted funds should be followed.

16. An exempt organization's publications, magazines, facilities, or appeal letters should never be used to promote personal activities or product sales for control parties or for-profit organizations owned by them or family members.

17. For questionable transactions involving use of exempt organization assets, opinions from a qualified CPA or attorney should be requested concerning the proposed transaction, and consideration should be given to applying for a private letter ruling from the Internal Revenue Service.

18. An annual certified audit of the organization's financial statements should be performed by an independent certified public accounting firm, and should follow the guidelines as laid out in the American Institute of CPA's Statement of Position 78-10, "Accounting Principles and Reporting Practices for Certain Nonprofit Organizations."

19. Every expenditure of the organization should be thoroughly documented in writing with regard to the exempt purpose of the transaction, no matter how large or small.

In short, all transactions involving an organization's founders, trustees, directors, donors, etc. should be avoided unless it can be clearly documented that the transaction is "arm's-length."

There has been abuse by certain organizations on a limited basis. However, I believe that no matter what laws are established to regulate churches and ministries, a few unscrupulous persons will continue to disobey them to service personal purposes.

Churches and other religious organizations, like government, are not producers of revenue but are reallocaters of revenue. They exist to serve purposes deemed by Congress to be beneficial to the general public. Imposing extremely harsh rules, penalties, and excessive documentation increases the amount of funds for attorneys and CPA's and decreases the amount of money left to spend on these program services.

The need is for more efficient procedures but less severe penalties. Organizations can spend their time and effort to serve the public good and the Internal Revenue Service can fulfill its regulatory function.

Cordially,

GUINN, SMITH & CO.

James E Guinn

By: James E. Guinn, CPA
Partner

JEG/vk

STATEMENT TO
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS

OCTOBER 6, 1987 HEARING ON FEDERAL TAX RULES APPLICABLE TO TAX-EXEMPT ORGANIZATIONS INVOLVING TELEVISION MINISTRIES

SUPPLEMENTAL INFORMATION

WITNESS:	REV. JIMMY SWAGGART President Jimmy Swaggart Ministries Post Office Box 2550 8919 World Ministry Avenue Baton Rouge, Louisiana 70810-9099 (504) 768-8300
DESIGNATED REPRESENTATIVE:	WILLIAM D. TREEBY, ESQ. Stone, Pigman, Walther, Wittmann & Hutchinson 546 Carondelet Street New Orleans, Louisiana 70130 (504) 581-3200

TOPICAL OUTLINE

Introduction and Background p. 1
Jimmy Swaggart Ministries' Exempt Status and Exempt Purpose p. 1
IRS Returns and Audited Financial Statements p. 2
Jimmy Swaggart Ministries' Purposes and Activities p. 2
Jimmy Swaggart Ministries' Governance - Public and Governmental Accountability p. 8
Conclusion p. 10

Mr. Chairman and Members of the Subcommittee:

Pursuant to your request of September 15, 1987 please accept this written statement as my testimony to this committee. Since my return from evangelistic services in Brazil, I have had an opportunity to observe portions of your Subcommittee's hearings and I commend you for the manner in which they were conducted. Despite press reports implying an investigative motive for the hearings, my observation is that the hearings were properly confined to addressing legitimate legislative oversight issues.

I am glad to be of any help I can to the Congress of the United States. As a citizen I am grateful to God for His support for our country which has made it a bastion of freedom and liberty. I have been involved in full-time ministry as an evangelist and preacher of the Gospel of Jesus Christ since 1958. I was ordained by the Louisiana District Council of the Assemblies of God in 1960, and have been in good standing with the Assemblies of God since that time. For eleven years I preached from church to church, criss-crossing the United States. In 1969 I began, in addition, to preach and teach in a full-time regular radio ministry as an outreach of a local church in Baton Rouge, Louisiana. In 1960 I produced my first Gospel music album. This and subsequent albums were first distributed as part of my ministry as an evangelist and all proceeds from that distribution were taxed to me personally. In 1970 I donated all past and future rights to those records to JSM (including its predecessor Camp Meeting Revivals). Since 1973, about 15,000,000 of my albums, in the form of phonograph records, eight-track tapes, and cassette tapes, have been sold by JSM. All of these albums are directly related to the exempt purposes of JSM. In 1973 we formed Jimmy Swaggart Evangelistic Association and added a full-time television ministry to the other ministry activities; and, in 1984 we began Jimmy Swaggart Bible College to train full-time Christian workers, preachers and missionaries. In 1982 we changed the name of our corporation to Jimmy Swaggart Ministries (hereinafter referred to as "JSM").

JSM's EXEMPT STATUS AND EXEMPT PURPOSE

Jimmy Swaggart Ministries ("JSM") is a Louisiana nonprofit corporation which filed Form 1023 and was recognized as qualified as a publicly supported religious corporation in August, 1973. Effective January 1, 1980, based upon the development of a strong local church in Baton Rouge, Louisiana, and the filing of another Form 1023 along with voluminous documentation, JSM was recognized by the IRS as a church. JSM's present total church ministry includes a world evangelistic outreach, local church ministries with Sunday morning attendance of over 5,000 adherents, and a multiplicity of missions efforts in over 195 countries. JSM is classified properly as a church for Federal tax purposes. We take great care to ensure that every activity we engage in falls exclusively within our purpose to preach and teach the good news about Jesus Christ to the whole world, beginning in the United States and reaching to every country that is open to receive that message.

In my opinion it is important that tax-exempt Christian churches be engaged solely in the work of The Church, that is to evangelize the world, edify believers, and worship God. This purpose is directly served by producing, providing, and promoting quality religious broadcasting of the good news about Jesus Christ on television and radio. This purpose is directly served by wide distribution of the Gospel message in the form of the printed page, and in the form of audio recordings of sermons, Bible teaching, and of Gospel music which encourages worship. This purpose is directly served by educating and training Christian workers, pastors, evangelists, and missionaries. This purpose is not served, in my opinion, by churches making massive expenditures for secular facilities that may serve the general public well, but do not have as their primary thrust and goal the purpose of dealing with people's spiritual needs.

IRS RETURNS AND AUDITED FINANCIAL STATEMENTS

JSM does not file annual information returns (IRS Form 990) as a church, but it did file such returns from 1974 through 1981. JSM has undergone an annual, regular independent audit of its financial statements each year since 1974. Beginning with its first independent audit, JSM's audited financial reports have been available to all of its contributors upon request. For several years the annual independent audit was published in JSM's monthly periodical The Evangelist. These financial statements have been filed each year with the District Council of the Assemblies of God and with the General Council of the Assemblies of God.

JSM's PURPOSES AND ACTIVITIES

JSM engages in every conceivable activity appropriate for a Christian church. Numerous religious services are conducted by JSM each week in Baton Rouge, Louisiana, under the auspices of its local church, Family Worship Center. A typical weekly schedule of these local church activities and services, for example, is as follows:

Sunday

FWC Adult Elective Classes (FCA and Morris Plotts Buildings)	9:00 - 9:45 a.m.
Intercessory Prayer (Room 143, FWC)	9:00 - 9:45 a.m.
Children's Choir (FCA Auditorium, downstairs)	9:00 - 9:45 a.m.
Adult Fellowship Classes (Sunday School) for Singles, Married Couples, and Youth	9:00 - 9:45 a.m.
Powerhouse Sunday School (ages 4-5) (FCA Auditorium, upstairs)	9:00 - 10:30 a.m.
Powerhouse preschool service (ages 4-5) (FCA Auditorium, upstairs)	10:30 - 12:00 noon
Powerhouse Sunday School (ages 6-12) (FCA Building)	10:00 - 12:00 noon
FWC WORSHIP SERVICE (FWC Sanctuary)	10:00 - 12:00 noon
GOYA FWC WORSHIP SERVICE (Goya Sanctuary)	10:00 - 12:00 noon
Spanish worship service (Room 254, Morris Plotts Complex)	10:00 - 11:30 a.m.
Prison Ministry worship service, Louisiana Correctional Institute for Women, St. Gabriel, LA (fourth Sunday each month)	10:00 - 11:00 noon
Prison Ministry worship service, Dixon Correctional Institute, Jackson, LA	10:00 - 12:00 noon
Bible Quiz practice (Rooms 259/261, Morris Plotts Complex)	12:30 - 5:00 p.m.
Prison Ministry visitation, Dixon Correctional Institute	1:00 - 4:00 p.m.
Prison Ministry worship service, Iberville Parish Prison, Plaquemine, LA	1:00 - 4:00 p.m.
Prison Ministry worship service, Salvation Army, Baton Rouge	5:30 - 6:30 p.m.
Prison Ministry Bible study, Louisiana Training Institute, Baker, LA	5:30 - 10:00 p.m.
FWC EVENING WORSHIP SERVICE (FWC Sanctuary)	6:00 - 8:30 p.m.
GOYA EVENING WORSHIP SERVICE (Goya Sanctuary)	6:00 - 8:30 p.m.
Deaf Service	6:00 - 9:00 p.m.

Monday

"A Study in the Word," WLUX Radio, with Jimmy Swaggart	2:00 - 2:30 p.m.
"Call to Prayer," WLUX Radio, with Glen Miller	2:30 - 3:00 p.m.
Bus Ministry Neighborhood Bible studies (various area homes)	5:00 - 7:30 p.m.
Tele-Evangelism (Telethon Room, Smith Wigglesworth Building)	6:30 - 8:30 p.m.
Tender Touch Ladies Evening Bible study, J. W. Tucker Complex	7:00 - 9:00 p.m.
Prison Ministry Bible study, Angola Louisiana State Penitentiary, Camp H	7:00 - 9:00 p.m.
Goya FWC "Work Place" ministry meeting (Goya Sanctuary)	

Tuesday

Tender Touch Bible study (J. W. Tucker Complex Auditorium)	9:30 - 11:30 a.m.
PRAYER TIME FOR JIMMY SWAGGART MINISTRIES (FWC Sanctuary)	12:00 - 1:00 p.m.
"A Study in the Word, WLUX Radio, with Jimmy Swaggart	2:00 - 2:30 p.m.
"Call to Prayer," WLUX Radio, with Glen Miller	2:30 - 3:00 p.m.
Prison Ministry Bible study, Dixon Correctional Institute	4:30 - 8:30 p.m.
Prison Ministry Bible study, Louisiana Training Institute	5:30 - 10:00 p.m.
Prison Ministry prison-wide service, Dixon Correctional Institute, second Tuesday of each month	6:30 - 8:30 p.m.

Wednesday

"A Study in the Word," WLUX Radio, with Jimmy Swaggart	2:00 - 2:30 p.m.
"Call to Prayer," WLUX Radio, with Glen Miller	2:30 - 3:00 p.m.
Bible Quiz practice (FCA Rooms 259/261)	6:00 - 7:00 p.m.
Prison Ministry Bible study, Louisiana Correctional Institute for Women	6:30 - 8:30 p.m.
Prison Ministry Bible study, Hunt Correctional Center	6:30 - 8:30 p.m.
Prison Ministry Bible study, Louisiana Training Institute	7:00 - 8:00 p.m.
FWC MIDWEEK SERVICE -- (FWC Sanctuary)	7:00 - 8:30 p.m.
"Crossfire" (youth, ages 12-22) (J. W. Tucker Complex)	7:00 - 8:30 p.m.
Missionettes (FCA Building)	7:00 - 8:30 p.m.
Royal Rangers (T-Building)	7:00 - 8:30 p.m.
Choir Practice (Choir Room, FWC	7:00 - 8:30 p.m.
Deaf services (Room 174, Morris Plotts Complex)	7:00 - 8:30 p.m.

Thursday

Visitation (Room 344, FWC)	9:00 - 12:00 noon
"A Study in the Word," WLUX Radio, with Jimmy Swaggart	2:00 - 2:30 p.m.
"Call to Prayer," WLUX Radio, with Glen Miller	2:30 - 3:00 p.m.
Prison Ministry Bible study, Dixon Correctional Institute	4:30 - 8:30 p.m.
Visitation (Room 344, FWC)	6:30 - 8:30 p.m.

Prison Ministry Bible study, Angola Penitentiary	6:30 - 9:30 p.m.
Tele-Evangelism (Telethon Room, Smith Wigglesworth Building)	6:30 - 8:30 p.m.
Goya FWC Midweek service (Goya Sanctuary)	7:00 - 8:30 p.m.

Friday

Better Years Fellowship (Room 108, J. W. Tucker Complex)	10:00 - 2:00 p.m.
"A Study in the Word," WLUX Radio, with Jimmy Swaggart	2:00 - 2:30 p.m.
"Call to Prayer," WLUX Radio, with Glen Miller	2:30 - 3:00 p.m.
Bus Ministry Neighborhood Bible study (various area homes)	5:00 - 7:30 p.m.
Prison Ministry Bible study, Hunt Correctional Center (second Friday of each month)	6:30 - 9:00 p.m.
Youth Fellowship Group meetings (call church for more information, 768-3503)	7:00 - 9:00 p.m.
Goya Neighborhood Bible studies (various area homes)	7:00 - 8:30 p.m.
"Conquerors" Singles Group (FCA Cafeteria)	7:00 - 9:30 p.m.
Goya Youth Ministry service (Goya Sanctuary)	7:00 - 8:30 p.m.
A & D meeting (J. W. Tucker Complex Auditorium)	7:00 - 9:30 p.m.
Married Couples Ministry meeting (Room 108, J. W. Tucker Complex)	7:00 - 9:30 p.m.
Chi Alpha (Crossfire) (LSU, Cotes Hall, Room 143 0 call 389-0890 for more information)	7:30 - 9:00 p.m.

Saturday

Bus Ministry workers meeting (FCA Auditorium, downstairs)	8:00 - 9:00 a.m.
Soul-winning (FWC Choir Room)	8:30 - 12:00 noon
Crossfire visitation (area homes)	9:30 - 12:00 noon
Busing Ministry childrens' meetings (FCA Auditorium) and	1:00 - 2:30 p.m. 2:30 - 3:30 p.m.
Prison Ministry Bible study, Angola Penitentiary, main prison	6:00 - 9:00 p.m.
FWC PRAYER MEETING -- II CHRONICLES 7:14 (Sanctuary)	7:14 p.m.
GOYA PRAYER MEETING (Goya Sanctuary)	7:14 p.m.
Altar Counselors meeting (first and third Sunday of each month)	5:00 - 6:00 p.m.

Evangelistic crusades are conducted regularly in large arenas and stadiums around the world. These services are always held in cooperation with numerous local churches in the area. Such evangelistic religious services have been held in the following 35 cities and locations from 1985 up to the present time:

January, 1985 - Kingston, Jamaica
January, 1985 - Orlando, Florida
February, 1985 - Houston, Texas
March, 1985 - Los Angeles, California
April, 1985 - Charlotte, North Carolina
May, 1985 - Evansville, Indiana
June, 1985 - Toronto, Ontario Canada
July, 1985 - New Haven, Connecticut
July, 1985 - Bloomington, Minnesota

August, 1985 - Denver, Colorado
September, 1985 - Nashville, Tennessee
October, 1985 - Dallas, Texas
November, 1985 - Philadelphia, Pennsylvania
January, 1986 - Lima, Peru, Alliance Stadium
January, 1986 - Buenos Aires, Argentina, River Plate Stadium
February, 1986 - Tampa, Florida, Sun Dome
March, 1986 - Birmingham, Alabama, Jefferson Civic Center Coliseum
April, 1986 - Louisville, Kentucky, Freedom Hall
May, 1986 - Kansas City, Missouri, Kemper Arena
June, 1986 - Sacramento, California, ARCO Arena
July, 1986 - Baton Rouge, Louisiana, Family Worship Center
August, 1986 - Pittsburgh, Pennsylvania, Civic Arena
September, 1986 - Washington, D.C., Capital Centre
October, 1986 - Santo Domingo, Dominican Republic, Olympic Stadium
November, 1986 - Greensboro, North Carolina, Greensboro Coliseum
December, 1986 - Atlanta, Georgia, The Omni
January, 1987 - Santiago, Chile, National Stadium
January, 1987 - Asuncion, Paraguay, National Stadium
February, 1987 - San Salvador, El Salvador, National Stadium
February, 1987 - San Jose, Costa Rica, National Stadium
March, 1987 - Los Angeles, California, Sports Arena
April, 1987 - San Diego, California, San Diego Sports Arena
May, 1987 - Vancouver, B.C., Canada, Pacific Coliseum
July, 1987 - Baton Rouge, Louisiana, Family Worship Center
August, 1987 - Long Island, New York, Nassau Veterans Memorial Coliseum
September, 1987 - Sao Paulo, Brazil, Morumbi Stadium
October, 1987 - Rio de Janeiro, Brazil, Maracana Stadium

For the remainder of 1987 and for 1988, the following 17 evangelistic crusades are planned:

November, 1987 - Abidjan, Ivory Coast, West Africa, Houphouet Boigny Stadium
November, 1987 - Monrovia, Liberia, West Africa, Samuel Kanyon Doe Sports Complex
November, 1987 - Baton Rouge, Louisiana, Family Worship Center
January, 1988 - Tegucigalpa, Honduras, National Stadium
January, 1988 - Panama City, Panama, Revolution Stadium
February, 1988 - Freetown, Sierra Leone, Siaka Stevens Stadium
March, 1988 - Lagos, Nigeria, National Stadium
March, 1988 - Cincinnati, Ohio, Riverfront Coliseum
April, 1988 - Oklahoma City, Oklahoma, Myriad Arena
June, 1988 - Toronto, Ontario, Canada, Maple Leaf Gardens
July, 1988 - Baton Rouge, Louisiana, Family Worship Center
July, 1988 - Indianapolis, Indiana, Market Square Arena
September, 1988 - Oakland, California, Oakland-Alameda County Coliseum
September, 1988 - Guayaquil, Ecuador, Modelo Stadium
October, 1988 - La Paz, Boliva, National Stadium
November, 1988 - Taipei, Taiwan, National Stadium
November, 1988 - Baton Rouge, Louisiana, Family Worship Center

In addition to the above listed services, at least four major religious conventions have been conducted annually by JSM in Baton Rouge for the past few years.

JSM operates a Bible College (Jimmy Swaggart Bible College) with about 1,400 students as well as a local private school, Family Christian Academy in Baton Rouge, Louisiana educating more than 800 students in grades kindergarten through 12th grade. JSM's Childcare International program includes feeding, medical, and educational services in 51 countries in Central America, South America, Africa, India and numerous island countries in the Caribbean, the Pacific and the Indian Ocean. More than 73,000 children are touched in some way each day by these educational and feeding programs in a total of over 320 schools. Construction was funded by JSM for 180 of these schools, and over 140 other existing schools were assisted in other ways with educational materials, clothing and food. JSM supports missions programs in over 195 countries of the world including relief programs in famine and war-ravaged countries in Africa and Asia; medical vans and clinics in numerous third world countries; and, water systems in Africa, Central America and the Dominican Republic. What follows is a listing, as of October 15, 1987, of the numbers of students, patients and people being helped by Jimmy Swaggart Childcare International programs.

	SCHOOLS OR ORPHANAGES			MEDICAL VANS OR CLINICS			FAMINE RELIEF	WATER SYSTEMS
COUNTRY	Construction Funded	Other Schools Helped	Number of Students	Units Funded	Patients Per Day	Patients Per Month	People Helped Per Day	People Helped Per Day
Argentina	2		425	1	35	700		
Bangladesh	5		465					
Belize	3		385	1	100	2,000		
Boliva	1		100	1	100	2,000		
Brazil	22		5,157					
Burkina Faso	3	37	7,100	1	200	4,000		
Cameroon	2	1	50	2	200	4,000		
Chile	2		55	1	100	2,000		
Colombia	2		850					
Costa Rica	6		2,025	2	500	10,000		
Dominican Republic	6		1,472	2	130	2,650		700
Ecuador	3		1,260					
Egypt	1		550					
El Salvador	21	4	17,200	1	250	5,000		17,200
Ethiopia		2	370	3	250	5,000	131,506	
Fiji	8		840					
Ghana				3	500	10,000		
Guatemala	10	2	3,448					
Haiti	24	37	11,080					
Honduras	6	2	2,004	1	250	5,000		900

	SCHOOLS OR ORPHANAGES			MEDICAL VANS OR CLINICS			FAMINE RELIEF	WATER SYSTEMS
COUNTRY	Construction Funded	Other Schools Helped	Number of Students	Units Funded	Patients Per Day	Patients Per Month	People Helped Per Day	People Helped Per Day
India	3	44	10,374	1	250	5,000	25,000	
Indonesia	3		1,200					
Ivory Coast	3		200	1	50	1,000		
Jamaica	1		300					
Jordan				1	50	1,000		
Kenya	5		400	3	750	15,000		
Lebanon				1	50	1,000		
Lesotho	1	1	50	1	50	1,000	1,000	
Mali				1	200	4,000		
Mauritania				1	50	1,000		
Mexico	1		100					
Middle East Country		1	100					
Mozambique				22*	1,250	25,000	30,000	500
Nicaragua	9		550					
Panama	3	1	470					
Paraguay	5		415	4	250	5,000		
Peru	6	9	1,821	1	250	5,000		
Philippines	1		100	4	600	12,000	2,000	
Poland	1		10					
Saipan	1		100					
Senegal	1		40					1,000
Somalia				1	50	1,000		
Sri Lanka				1	100	2,000		
Sudan							1,000	
Swaziland				1	150	3,000	8,000	
Thailand		3	600	3	250	5,000		
Togo	1		460					
Uruguay				1	150	3,000		
Venezuela	1		50					
Zaire	5		1,100	2	250	5,000		
Zambia				1	100	2,000	16,000	
Zimbabwe	2		100	2	200	4,000	50,500	150
TOTALS	180	144	73,376	72	7,665	153,350	265,006	20,450

*Includes 20 3-wheeled medically equipped bicycles

More than 12,000 tons of relief commodities have been secured and distributed by JSM to needy individuals in Mozambique and Zimbabwe alone.

JSM owns radio stations in Baton Rouge, Houston, Pensacola, Bowling Green (Ohio), Charlotte and Oklahoma City offering Christian programing which includes Bible preaching, teaching and Gospel music. JSM produces and distributes religious literature and Gospel music as well as audio cassette Bible teaching on numerous subjects. JSM broadcasts its evangelistic services on a 60-minute weekly program. In addition, JSM produces and airs a weekday 30-minute Bible-teaching program entitled "A Study In The Word." JSM programs are aired on more than 3,200 television broadcast stations in all 50 states and 80 foreign countries in 16 languages. In addition, JSM television programs are aired on approximately 11,000 cable television systems in the United States. JSM's weekly 60-minute program has received the highest Arbitron ratings of any regular religious broadcast continuously since July, 1982. In addition JSM's weekday 30-minute program, "A Study In The Word", currently has the eleventh largest audience of all regular religious television programs including the JSM weekly program. The 30-minute weekday program has the second largest audience of the regular weekday religious programs, second only to "The 700 Club".

None of JSM's activities are conducted in for-profit entities, and JSM has not had gross revenues from an unrelated trade or business of more than $1,000 in any year and therefore has not filed Form 990-T.

The overriding purpose for JSM is to preach and teach the good news about Jesus Christ around the world, utilizing every available and effective means at its disposal. I believe all of our activities fall squarely within that purpose.

JSM's GOVERNANCE - PUBLIC AND GOVERNMENTAL ACCOUNTABILITY

Jimmy Swaggart Ministries is governed by a Board of Directors of nine individuals which meets regularly to review the affairs of JSM including all of its financial activities. A majority of that Board of Directors are not related to me in any natural way, but do intimately share with me the vital purposes of JSM. These Board members are not, and should not be, strangers to me or to the work of the ministry. It is essential that they share Biblical doctrine, my vision and my burden for a needy world. A majority of JSM's Board are not employees of JSM. This "unrelated" majority solely discusses and determines all issues involving my salary and benefits and those of members of my immediate family. Of the over 1,700 full-time employees of JSM, 19 of them are related to me by marriage or by blood (including spouses of nieces and nephews). These individuals serve in many different capacities from secretaries and clerks to myself. Many employees of JSM who are not related to me by marriage or by blood have other family members who work for JSM. We encourage both husbands and wives to work at JSM, and many do. Each member of the Board of Directors is, and must be, a dedicated Christian who shares the vision, the purposes, and the goals of JSM. The character of these individuals constitutes the single most significant safeguard to ensure that JSM fulfills its purpose for being as stated in its Articles of Incorporation and its Constitution and By-Laws.

No church, religious organization, or other charity should ask for or take a donation for one specific purpose and use it for another purpose. The Board of Directors of JSM has looked carefully at the ethical issues involved in raising funds for specific projects. In the early years of JSM we did not raise funds for specific projects, but one of the first specific projects for which we raised funds became impossible to perform because of governmental regulations in a Central American country. We decided then, and have followed this policy from that time, that we must offer each such donation back to the donor, explaining the circumstances. Some of those donors redirected their gifts, others did not and received them back.

JSM is able to support a large portion of its administrative expenses, including all executive payroll, from the distribution of Gospel music records, tapes, and books produced within JSM. Distribution of these materials also constitutes part of JSM's reason for being. Before JSM was formed I determined to keep no royalties of any kind from the Gospel music recordings or books produced by me. The profit from the distribution of these items, including my autobiography, has been able to largely support the general and administrative expense of JSM, and has allowed us to send at least 100% of the money received for missions projects directly to each project without reduction for fund raising expenses (which do exist) and without reduction for general administrative and overhead expenses (which also exist).

JSM has been recognized by the General Council of the Assemblies of God from its inception until 1987. During that period audited financial statements have been annually submitted, pursuant to Assemblies of God regulations, to the denomination. We will continue this practice in the future, because we believe we are and should be accountable spiritually and financially. All funds expended by JSM in foreign missions efforts have been contributed through the offices of the Division of Foreign Missions of the General Council of the Assemblies of God, with headquarters in Springfield, Missouri.

JSM has been a member of National Religious Broadcasters ("NRB") since JSM's inception, and as a member of the Board of Directors of NRB I have been actively involved in the establishment and strengthening of the Ethics and Financial Integrity Commission (EFICOM) and will submit JSM to be governed in continued compliance with the Code of Ethics of NRB and EFICOM. Independent auditors have established and continuously monitor JSM financial systems to assure that all tax-deductible contributions are used exclusively for exempt, and not private, purposes. These systems are constantly reviewed and strengthened with the active participation of JSM's Executive Committee and its independent auditors.

At least once a year our independent auditors perform a review and analysis to ensure to JSM's Board of Directors that there is no private inurement from the net earnings of JSM to any private individual, including specifically any Officer or Director. All items that could conceivably be considered as compensation are reviewed to ensure that they are reasonable in amount, both individually and collectively. And, of course, none of the Officers or Directors can be involved in Board discussions or decisions relating directly or indirectly to their compensation. This internal rule applies to me as President of JSM as well as any other Director who is employed by JSM. I do, however, reserve the right to reduce the level of my compensation set by the Board of Directors, and I have done so on more than one occasion. It is essential that the leader of a church or religious organization be able to limit the amount received in compensation at the leader's discretion. It is not ethically sufficient, in my opinion, to say that an independent Board of Directors fixed my compensation.

Further, it is essential that independent members of a Board of Directors, with the advice of appropriate professional advisors, be solely involved in making decisions involving the "arms length" nature of any transactions between a church (or other charity) and any employees of the church (or other charity). Again, much more depends on the character of those individual Board members than upon any other attribute they may have.

JSM is committed to compliance with all the laws of the United States and the various states in which it conducts its activities. Consistent with this commitment JSM has used and continues to use the facilities and procedures of the IRS or similar state agencies to secure advance rulings for any activities in which it engages for which there is no clear legal precedent. Further, JSM is committed to public disclosure of its financial affairs.

For this committee's benefit we attach an example of one form of public disclosure of its financial affairs that JSM has provided to all on its mailing list during 1987. This report contains a statement regarding the purposes and the programs of JSM along with financial disclosures designed to be understood easily be the average donor. The disclosures include a pie chart breaking down the source of revenues and the objects of expenditures (including fund-raising costs) into meaningful categories. The report also lists Officers and Directors and a specific disclosure regarding my compensation for 1987. My salary for 1987 is $86,000, and I will donate, by the end of 1987, $52,000 of that amount back to JSM. In addition I receive a monthly housing allowance to pay the mortgage and other housing expenses allowed by the IRS as a parsonage allowance for one house. I have not in the past and will not in 1987 receive any bonuses or record or book royalties, and I will not receive any fees from speaking engagements. All such revenues go directly to JSM. As this annual report shows, only 8.7% of JSM's expenditures in 1986 went toward fund raising. This compares very favorably to the excellent record of United Way nationally, which spent 10% of its expenditures for fund raising last year, or to the Jerry Lewis Muscular Dystrophy Campaign, which spent 17% of its expenditures for fund raising last year (1986).

CONCLUSION

In our experience the IRS has diligently and fairly applied the laws and regulations to churches and religious organizations. This Subcommittee should certainly oversee the IRS to ensure they have sufficient resources to fully and fairly enforce existing laws and regulations. The present balance between religious freedom and protection from impropriety contained in these rules is sufficient to protect religious freedom and legitimate governmental interest. However, it is essential that there be adequate personnel and resources to provide prompt and fair enforcement of these laws and regulations by the IRS.

I would be pleased to respond further to any specific questions by members of this Subcommittee or its staff.

Jimmy Swaggart
October 29, 1987

JSM Annual Report

It has always been the policy of this Ministry to provide our partners, upon request, a copy of our financial statements.

In fact, in past years, we've even published our annual report in *The Evangelist*. However, in the recent past this annual report has gotten so large that it is nearly impossible to do so.

With all of the attention the secular media has given organizations such as ours in recent months, we wanted to let you know exactly what your gifts are doing for the Kingdom of God for two reasons.

First, to be frank with you, we are proud of our stewardship of all that you, and God, have entrusted us with. I know I can say, without fear of contradiction, that your dollars are producing miraculous results for the cause of Christ.

Secondly, we think it's important that you feel part of what your gifts are doing around the world. You play a vital role in the greatest evangelistic outreach in history, and it's something that will truly bear eternal rewards.

As you look over these figures, please try to keep one thing in mind. It's not dollars we're concerned with, or equipment, or buildings, or even good works. It's souls. And we're reaching hundreds of millions with the saving Gospel of Jesus Christ.

May God bless you,

World Outreach

The vision of this Ministry has always been clear . . . to reach every soul on the face of the earth with the Gospel of Jesus Christ.

God has honored this determination by giving us a Seven-Point Plan for World Evangelization that is reaping a harvest of souls unprecedented in our generation.

There are billions of souls around the world that have yet to hear the Gospel even once. The harvest is ripe. The time is short. And through every available means and with every willing believer, JSM is doing everything within its power to fulfill the Great Commission in our lifetime.

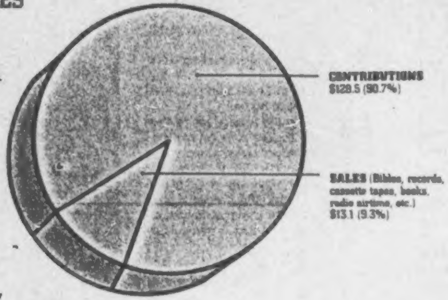
The vision is clear and simple. The message is powerful and uncompromised. And together we are part of one of the most exciting and successful ministry efforts known to man.

1986 Financial Stewardship Report

1986 REVENUES

TOTAL $141.6

As you can see, we are dependent on your contributions for the majority of our support.



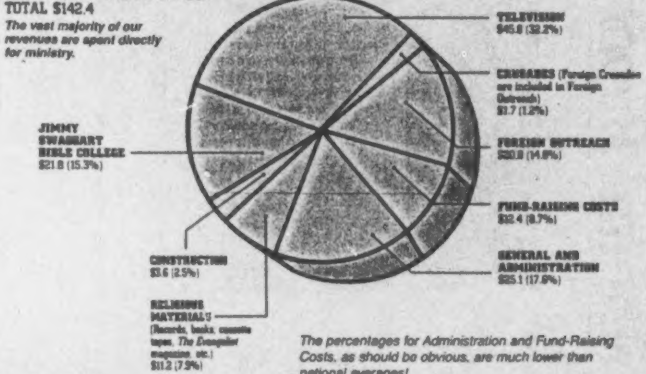
Preliminary Unaudited Figures

FIGURES SHOWN IN MILLIONS

1986 EXPENDITURES

TOTAL $142.4

The vast majority of our revenues are spent directly for ministry.



The percentages for Administration and Fund-Raising Costs, as should be obvious, are much lower than national averages!

Seven-Point Plan

TELEVISION

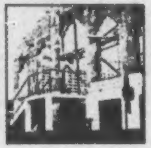
- Over 510 million people in more than 143 countries, translated into 15 languages, are reached each week via 3,200-plus television stations. (Nearly 100,000 people a month write to tell us of salvation experiences.)

CRUSADES

- More than 1.2 million people have attended crusades in the past 18 months, and more than 200,000 have been saved.

SCHOOLS

- To date, JSM has helped build 149 children's schools and helped support 132 schools. JSM has also helped build or support 110 Bible schools.



CHURCHES

- JSM has assisted in the building, acquisition, and/or construction of 145 churches around the world.

MISSIONARIES

- JSM currently helps support 610 missionaries in 117 countries.

LITERATURE

- In the last five years, JSM has distributed more than 2.9 million *New Name Written Down in Glory* books. This is in addition to the distribution of over 60 other titles.
- The Jimmy Swaggart Telecast is also the vehicle through which hundreds of thousands of Bible study courses (in the language of the people) are sent free of charge upon request.

CHILDCARE INTERNATIONAL

- More than 450,000 children and their families in 50 countries are provided those basics they need, be it food, clothing, education, or medical care — sometimes combinations of these.
- More than 150,000 people each month are reached by the 66 mobile medical vans and base units operated in 26 countries.

THIS IS WHAT YOUR GIFTS HELP ACCOMPLISH THROUGH OUR SEVEN-POINT PLAN FOR WORLD EVANGELIZATION.

A Personal Note

Jimmy Swaggart's salary for 1987 is $86,000 (the highest salary he has ever received), of which he will donate $52,000 back to the Ministry, leaving $34,000.00.

This salary is the sum total of all monies for Jimmy Swaggart other than a housing allowance, which is afforded to all ministers, rabbis, and priests. He receives no bonuses, record or book royalties, nor fees from speaking engagements, etc.

Brother Swaggart's salary is totally controlled by the Board of Directors and he does not have a vote in determining it.

JSM Leadership

Jimmy Swaggart Ministries is recognized by the Internal Revenue Service as a Church as described in Section 509(a)(1) and 170(b)(1)(A)(i) of the Internal Revenue Code, and accordingly must operate within the strict parameters and regulations established by the United States Government.

BOARD OF DIRECTORS

Jimmy L. Swaggart, President
Donnie L. Swaggart, Vice-President
Frances A. Swaggart, Secretary
Debbie R. Swaggart
William D. Treeby
Rev. F.C. Chamberlain
Rev. J.E. Allen
Rev. Cecil Janway
Rev. Forrest Hall

MINISTRY EXECUTIVES

Jimmy L. Swaggart, President
Donnie L. Swaggart, Executive Vice-President
Frances A. Swaggart, Secretary
Robert R. Anderson, Vice-President
James E. Rentz II, Vice-President
James B. Woolsey, Vice-President
Ray W. Trask, Vice-President

OUTSIDE AUDITORS

Jimmy Swaggart Ministries is audited by an outside, independent certified public accounting firm — Guinn, Smith & Company, Irving, Texas.

COMMENTS FOR THE RECORD OF SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, HEARING ON FEDERAL TAX RULES APPLICABLE TO TAX EXEMPT ORGANIZATIONS INVOLVING TELEVISION MINISTRIES

1. It is difficult for a person to find out if the organization soliciting his donations, whether it is a television evangelist or any other nonprofit group, is really using the donations for the purpose represented or whether it is a vehicle for supporting large numbers of people in the organization itself. This is true for several reasons:

A. Several such organizations that I have written to in the past, including the Oral Roberts Evangelistic Association, Moral Majority, and the Kenneth Copeland Ministries, have refused to send me a financial report.

B. It is time consuming and difficult for the average donor to find the right government office to write to for a copy of the organizations form 990.

C. When the form 990 comes, it has often been photocopied in such a way as to be borderline illegible.

D. The 990 form does not really tell the full story of the organization.

E. The 990 form does not show concealed earnings of individuals.

2. To amplify this last point, I obtained the 990 for 1976 for the Oral Roberts Evangelistic Association, Inc. A copy of that is attached. It was blurred and difficult to read. However, with the aid of a magnifying glass I discovered that the organization had spent $2,931,550.00 in that year for "religious literature". The organization gave away books and other literature to anyone that asked. But, apparently, it purchased these books from a publishing company controlled or owned by Oral Roberts. At least it is alleged that the association did this. How much was he paid for the books and for royalties? Since this money went directly into his pockets, it should show in the reports. It does not.

Somewhere in the form 990 should be a requirement that the organization report all indirect income to its officers or employees, including sums paid to any organizations controlled by or owned by the employees or officers. It should cover sums made by employees or officers in the form of royalties, even if those were paid to a separate corporation or other business entity in which the officer had no direct interest, except that he was paid by that organization a royalty for providing, for example, books and the books in turn were then sold to the evangelistic association

3. The organization itself should be required to provide these copies of the federal reports and perhaps a clear financial report to all donors or all persons asking for this information.

4. The requirement should apply to nonprofit organizations of all types and not just to television evangelists. To this date I have not received a financial report from moral majority. I understand that some of its funds were given to Liberty Baptist College, which is clearly contrary to the reason given by the organization for soliciting funds. I think this borders on fraud, if it is true. I do not know how to check it.

5. I am a lawyer and am much more sophisticated than the average donor in these matters. People with less education and concern are probably being cheated or defrauded out of huge sums of money by people who will not give an accounting to those who give the money.

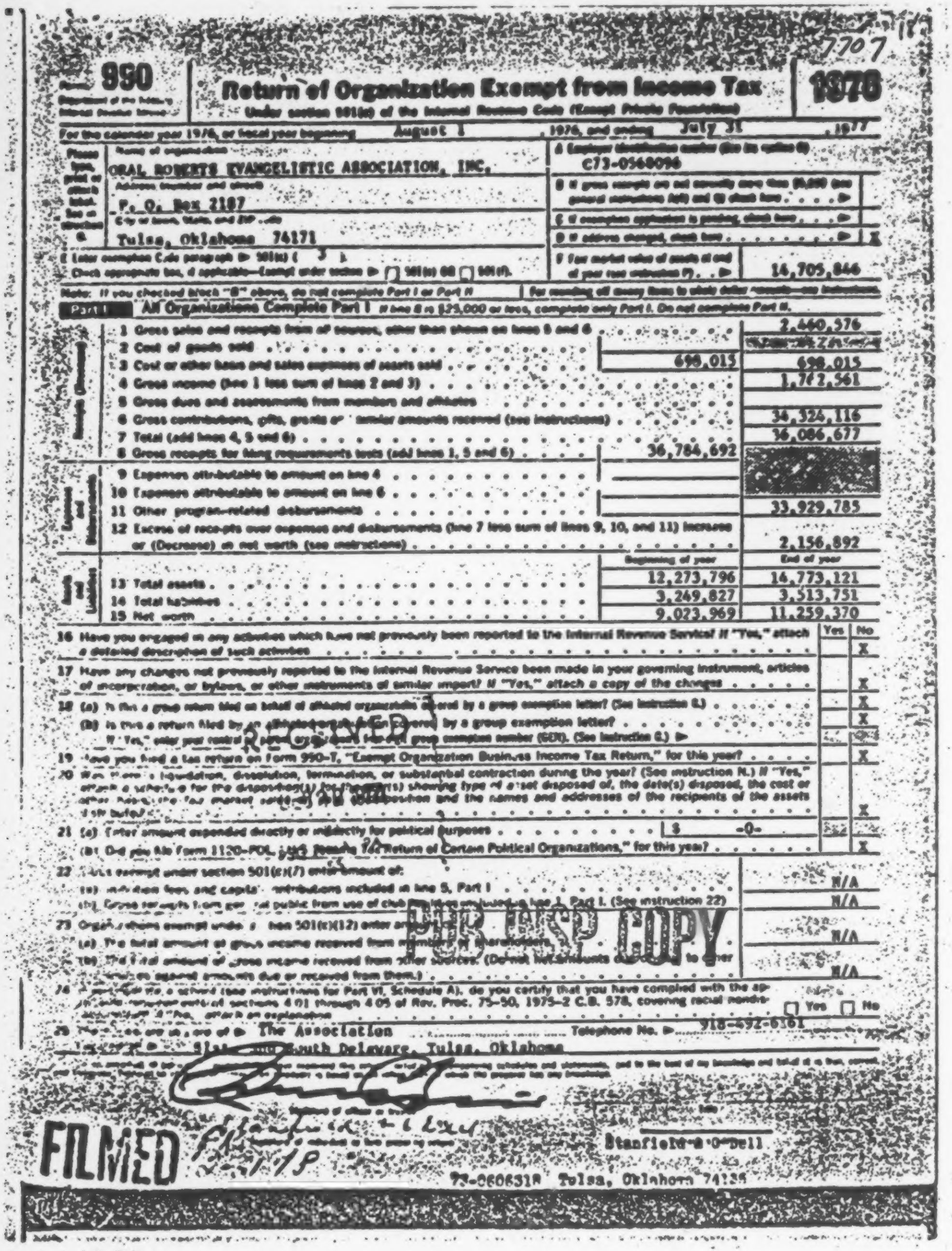
6. The suggested changes specifically are:

A. A requirement on the federal form that all money paid to officers and employees of the organization be revealed, whether that money is in the form of salary or some other form that filters through subsidiary or different organizations;

B. A requirement that every nonprofit organization provide, on demand, a copy of its financial statement, or lose its tax exempt, contribution deductible status.

Name of party submitting the statement: John P. Ternes
454 East Lake Street
Petoskey, Michigan 49770
(616) 347-8797

I am not representing any individual other than myself, a donor to many of the evangelists and other nonprofit organizations.



7707

Form **990**

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt from Income Tax

Under section 501(c) of the Internal Revenue Code (Except Private Foundation)

1976

For the calendar year 1976, or fiscal year beginning August 1, 1976, and ending July 31, 1977

Please type, print or attach label. See instruction G.

Name of organization: ORAL ROBERTS EVANGELISTIC ASSOCIATION, INC.

Address (number and street): P. O. Box 2187

City or town, State, and ZIP code: Tulsa, Oklahoma 74171

A Employer identification number (See instruction B): C73-0568096

B If gross receipts are not normally more than $5,000 (see general instructions A(4) and (5)) check here . . . . ▶ ☐

C If exemption application is pending, check here . . . ▶ ☐

D If address changed, check here . . . . ▶ ☒

E Enter exemption Code paragraph ▶ 501(c) (3).

Check appropriate box, if applicable—Exempt under section ▶ ☐ 501(e) OR ☐ 501(f).

F Fair market value of assets at end of year (see instruction F). . ▶ 14,705,846

Note: If you checked block "B" above, do not complete Part I or Part II | For rounding off money items to whole dollar amounts—see instructions.

Part I **All Organizations Complete Part I** If line 8 is $25,000 or less, complete only Part I. Do not complete Part II.

Revenue (Receipts)	1 Gross sales and receipts from all sources, other than shown on lines 5 and 6		2,460,576
	2 Cost of goods sold		[illegible]
	3 Cost or other basis and sales expenses of assets sold	698,015	698,015
	4 Gross income (line 1 less sum of lines 2 and 3)		1,762,561
	5 Gross dues and assessments from members and affiliates		
	6 Gross contributions, gifts, grants or similar amounts received (see instructions)		34,324,116
	7 Total (add lines 4, 5 and 6)		36,086,677
	8 Gross receipts for filing requirements tests (add lines 1, 5 and 6)	36,784,692	
Expenses and Disbursements	9 Expenses attributable to amount on line 4		
	10 Expenses attributable to amount on line 6		
	11 Other program-related disbursements		33,929,785
	12 Excess of receipts over expenses and disbursements (line 7 less sum of lines 9, 10, and 11) Increase or (Decrease) in net worth (see instructions)		2,156,892
		Beginning of year	End of year
Assets and Liabilities	13 Total assets	12,273,796	14,773,121
	14 Total liabilities	3,249,827	3,513,751
	15 Net worth	9,023,969	11,259,370

		Yes	No
16	Have you engaged in any activities which have not previously been reported to the Internal Revenue Service? If "Yes," attach a detailed description of such activities		X
17	Have any changes not previously reported to the Internal Revenue Service been made in your governing instrument, articles of incorporation, or bylaws, or other instruments of similar import? If "Yes," attach a copy of the changes		X
18	(a) Is this a group return filed on behalf of affiliated organizations covered by a group exemption letter? (See instruction E.)		X
	(b) Is this a return filed by an affiliated organization covered by a group exemption letter?		X
	If "Yes," enter your central organization's four-digit group exemption number (GEN). (See instruction E.) ▶		
19	Have you filed a tax return on Form 990-T, "Exempt Organization Business Income Tax Return," for this year?		X
20	Was there a liquidation, dissolution, termination, or substantial contraction during the year? (See instruction N.) If "Yes," attach a schedule for the disposition(s) for the asset(s) showing type of asset disposed of, the date(s) disposed, the cost or other basis, the fair market value(s) at the date of disposition and the names and addresses of the recipients of the assets distributed		X
21	(a) Enter amount expended directly or indirectly for political purposes . . . $ -0-		
	(b) Did you file Form 1120-POL, "U.S. Income Tax Return of Certain Political Organizations," for this year?		X

22 Clubs exempt under section 501(c)(7) enter amount of:

(a) Initiation fees and capital contributions included in line 5, Part I . . . N/A

(b) Gross receipts from general public from use of club facilities included in line 1, Part I. (See instruction 22) . . . N/A

23 Organizations exempt under section 501(c)(12) enter amount of:

(a) The total amount of gross income received from members or shareholders . . . N/A

(b) The total amount of gross income received from other sources. (Do not net amounts due or paid to other sources against amounts due or received from them.) . . . N/A

24 If you are a school (see instructions for Part VI, Schedule A), do you certify that you have complied with the applicable requirements of sections 4.01 through 4.05 of Rev. Proc. 75-50, 1975-2 C.B. 578, covering racial nondiscrimination? If "No," attach an explanation . . . ☐ Yes ☐ No

25 The books are in care of ▶ The Association Telephone No. ▶ 918-492-6161

Located at ▶ 8141 South Delaware, Tulsa, Oklahoma

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which the preparer has any knowledge.

Signature of officer or trustee Date

Stanfield + O'Dell

Signature of individual or firm preparing return

Stanfield & O'Dell

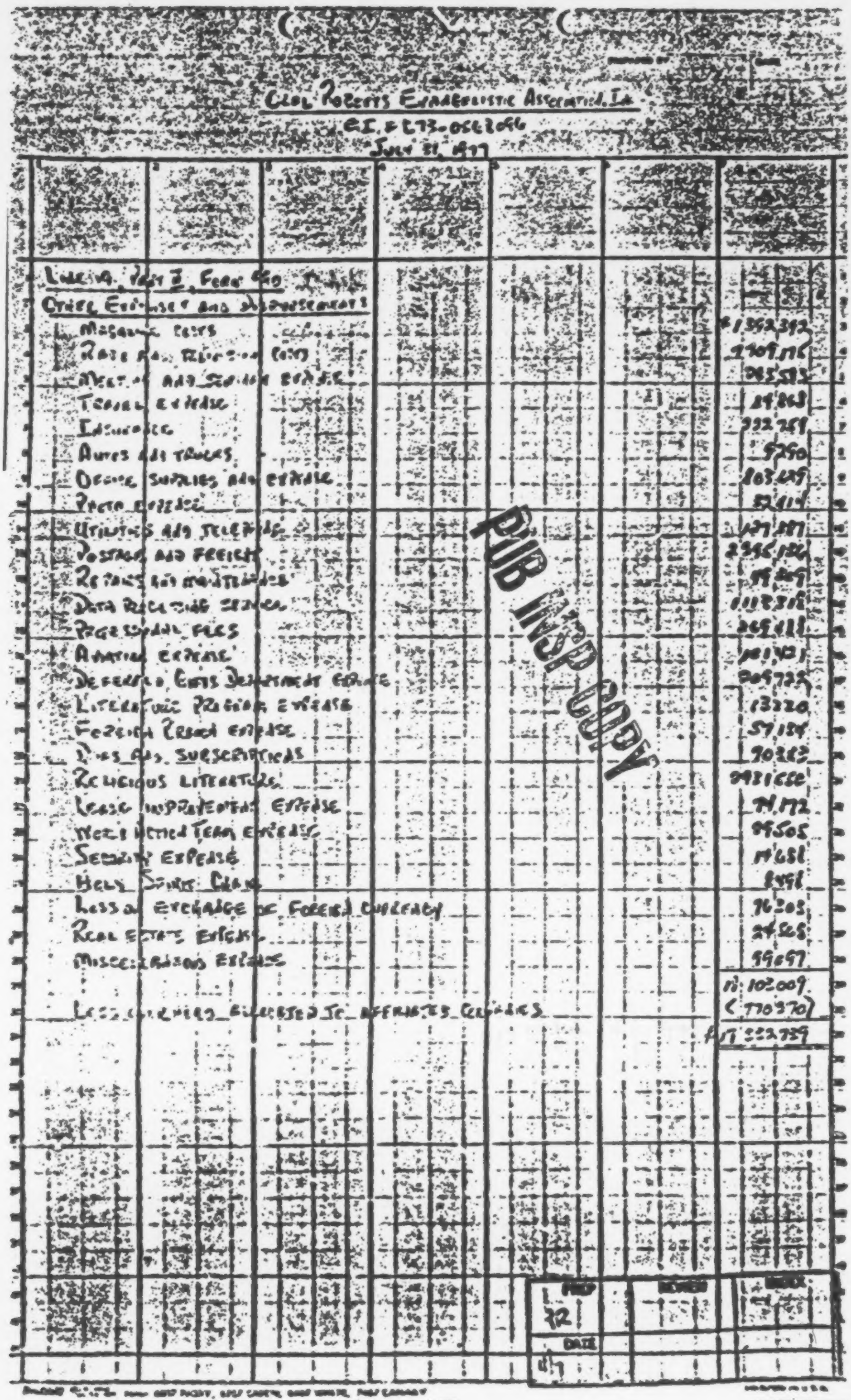
73-0606318 Tulsa, Oklahoma 74135

RECEIVED

PUB DISP. COPY

FILMED

2-21-78



Oral Roberts Evangelistic Association, Inc.
E.I. #73-0563096
July 31, 1977

Line 19, Part II, Form 990 Detail
Other Expenses and Disbursements

Magazine costs	$1,352,392
Radio and television costs	2,309,116
Meetings and seminar expense	285,583
Travel expense	84,868
Insurance	392,259
Autos and trucks	5750
Office supplies and expense	103,459
Photo expense	52,414
Utilities and telephone	427,887
Postage and freight	2,356,126
Repairs and maintenance	95,869
Data processing services	1,118,318
Professional fees	265,188
Aviation expense	101,421
Deferred gifts department expense	205,725
Literature program expense	13220
Foreign crusade expense	57,154
Dues and subscriptions	90283
Religious literature	2931658
Lease improvement expense	71,172
World action team expense	89505
Security expense	19681
Holy Spirit Conf.	8458
Loss on exchange of foreign currency	96203
Real estate expense	24525
Miscellaneous expense	55697
	13,102,009
Less charges allocated to affiliated companies	<770370>
	$12,332,739

PUB INSP COPY

PREP 72
REVIEWED
INDEX
DATE

MEMORANDUM

Date: 6 Oct., 1987

TO: Invited Members of the Press
Hearings on Federal Tax Rules Applicable to Tax Exempt Organizations involving Television Ministries

FROM: Trinity Foundation, Inc.

SUBJECT: Financial Abuses by TV Evangelists

Attached to this memo is the text of testimony by Ole Anthony, President and John Rutledge, Vice-President of Trinity Foundation, Inc. The following are sample quotes which may be useful in your coverage of the hearings.

> "Widespread flouting of IRS codes by Pat Robertson, Jerry Falwell, Jimmy Swaggart and others currently picking the pocket of every American Taxpayer."
>
> "These evangelists are robbing sincere seekers...being a member of their electronic church provides about as much true fulfillment as being married to a rubber dolly."
>
> "It's interesting to speculate what the IRS would determine was the fair market value for a handkerchief soaked with swaggart-sweat."
>
> "Can you imagine Jesus Christ using high-pressure bait and switch techniques?"
>
> "The `religious wars' are nothing more than bloody battles for mailing lists."
>
> "They are not fishers of men, but keepers of a very small aquarium filled with dying fish."
>
> "If what Oral Roberts says is true, Tulsa should be full of 650-year-old billionaires."
>
> "This is not broadcasting...it is narrow-casting and can't possibly meet FCC Codes."
>
> "The Apostles taught that any evangelist who appealed for money was a false prophet."

Also attached is a Fact Sheet on Trinity Foundation, Inc., and a bio sheet on it's President. Any coverage you can give from this testimony will be greatly appreciated.

Please contact Barbara Wilson at (214) 827-2625 if you need any further information.

Testimony before the
House Ways and Means
Oversight Subcommittee
Washington, D.C.
Oct. 6, 1987

By:
Ole Anthony, President
with
John Rutledge, Vice President
Trinity Foundation, Inc.
5634 Columbia
Dallas, TX 75214
(214) 827-2625

HEARINGS ON FEDERAL TAX RULES APPLICABLE TO TAX EXEMPT ORGANIZATIONS INVOLVING TELEVISION MINISTRIES

Honorable Members of the Subcommittee,

Thank you for the invitation to address this committee on the problem of financial abuses by television evangelists. The recent scandals have had an obviously tragic effect on the Christian community in America. What has gone unnoticed however, and what we hope these hearings will reveal, is a widespread flouting of the IRS codes and other laws by Pat Robertson, Jerry Falwell, Jimmy Swaggart and the others currently picking the pocket of every American taxpayer. We also hope that you will address the inherent structural problems in the manner in which religious television stations themselves are operated and possibly the manner in which they are licensed by the Federal Communications Commission (FCC).

As believers, we are tired of these caricatures of Christianity blaspheming the name of God on the air-waves. I speak from experience in this arena because for a brief time in 1972 I was a television evangelist. I've spent the last fifteen years carrying the shame of my hypocrisy for that indiscretion. In addition, I personally know most of the players in this cosmic comedic tragedy, which is doing irreparable harm to the name of the God under which this country was formed. For five years subsequent to my brief stint as a television evangelist, I hosted talk-shows wherein these "men of God" were interviewed. During the late 70's, the publisher of my first book, in order to sell that book, arranged appearances on most of the television shows you are now investigating.

I found that the message of most Television evangelists makes God an instrument of instant gratification, a key to maximizing self interest, using the name of Jesus as a mystical mantra. Spiritually, these evangelists are robbing sincere seekers. They're promising them by implication a sense of accomplishment, a sense of purpose, and a sense of community which has always been the true function of real churches and synagogues. However, being a member of their electronic church provides about as much true fulfillment as being married to a rubber dolly.

One reason I "left the fold" of these actors for God is the dishonest way that the religious television industry is structured. The system requires an endless cycle of appeals for money to keep the ministry on the air, coupled with "gift offer" enticements. These are all aimed at an audience of generally older women and widows who are least able to resist this psychological high-pressure sales pitch.

Television evangelists such as Pat Robertson, Jerry Falwell, Jimmy Swaggart and the rest are all breaking Internal Revenue Service laws when they issue tax receipts for gifts offered in exchange for donations. Generally, these gift offers take the form of the evangelist's latest book, or record album, or possibly a special leather-bound Bible. In the most outlandish operations, bottles of Holy Water or handkerchiefs with sweat from the brow of the evangelist are offered.

The broadcasters are allowed to give tax receipts for donations, but the IRS rules specify that the fair market value of the gift must be deducted first. That almost never happens. It's interesting to speculate what the IRS would determine was the fair market value for a handkerchief soaked with swaggart-sweat.

Trinity Foudation in Dallas, as part of a five-year survey of religious broadcasting, asked students from a Christian college to send off for gift offers from as many different religious broadcasters as possible--250 in all. Not one of the ministries in the survey deducted the fair market value of the gift from the tax receipt.

Many cities have local solicitation laws that are being ignored by the broadcasters as well. Dallas, for instance, requires a solicitation permit and financial disclosure if more than 50 persons are asked for donations. The law exempts those who solicit only through radio or television, but almost all religious broadcasters follow up their on-air appeals with direct mail appeals, which are covered by the law.

Modern television evangelists have themselves become big business with all the accompanying media consultants, direct mail consultants, fund-raising factories and in the most successful ministries, political-style boiler rooms. Each of you on the committee has used telephone boiler rooms to get out the vote on election day, but in your wildest dreams, can you imagine Jesus Christ hiring telephone consultants to use high-pressure bait and switch techniques to spread his message of love and the abandonment of self? These sellers of doves in the sanctuary are an embarrasement to any sincere believer and to the name of God.

Perhaps the saddest part of the story is that, according to our demographic research, all of the television evangelists are vying for a limited donor pool of approximately five million people. The great majority of these people are women, age 49 and older, many of whom are widows living on their husband's pensions. This limited donor pool explains the "religious wars" so much in the press in recent months. The attempted and sometimes successful take-overs (such as Jerry Falwell taking over the PTL ministry) are in truth nothing more than bloody battles for mailing lists. These evangelists are not fishers of men, but are in truth, keepers of a very small aquarium filled with dying fish.

These evangelists are bilking widows out of their life savings using a "seed faith" theology that can better be described as a heavenly lottery. If what Oral Roberts and the rest of the prosperity preachers are saying is true, then Tulsa should be full of 650-year-old billionaires. It is not. Sometimes the variations in this heavenly lottery border on the bizarre.

One Dallas-based organization called "Success'n Life", headed by Pastor Robert Tilton of the Word of Faith Church, sells "franchises" to local churches all over the country. The churches that buy into the franchise system set up a satellite dish and a big-screen TV in their sanctuary and invite people in to watch Pastor Tilton deliver his success pitches. The "franchisee" gets a percentage of the money donated at it's "services".

A Dallas businessman named Harry Guetzlaff got caught in this heavenly lottery and is presently considering a class action lawsuit against Tilton for false advertising. Mr. Guetzlaff heard the message from Mr. Tilton that if he would donate to the Tilton organization, he would receive "a hundredfold" for his tax deductible investment. Within a few months of obligating himself to an investment of $5,000.00; from which the investment manager (Tilton) had promised $500,000.00; Mr. Guetzlaff lost his wife, his home, and his business. He is presently $500,000.00 in debt. It should be noted for SEC purposes that Mr. Tilton did not give out a prospectus on this tax deductible investment. The sales pitch however is available at the church book store, in case any of the committee members are interested in investing.

The courts will have to decide whether Mr. Guetzlaff has a legal case for false advertizing or is simply a fool. The question this committee should address however, is "How many other troubled people who are sincerely seeking help are being conned in the name of God by these heavenly lotteries, while at the same time being subsidised by the American taxpayer for their foolishness?

A great deal is being promised by religious broadcasters about plans to police themselves and to increase financial accountability after the scandals of the "hair-spray hypocrites" this year. But when millions of dollars are in the hands of ministers who have only loose ties to any recognized church or oversight organization, the problems won't be solved by industry self-policing. Most evangelist's organizations are private foundations, whose boards of trustees are self-perpetuating and are usually comprised of relatives and lackeys of their charismatic leader. As the only public religious foundation in the country, where the Board of Directors is elected each year by the members, Trinity Foundation is in a unique position to evaluate the weaknesses of this system. The temptation for abuse is too great in organizations where questions and scrutiny are seen as unbelief and mistrust of God Himself.

Another area I would suggest the committee review is the unique way in which religious television stations are operated. There are literally hundreds of religious TV stations in America licensed by the Federal Communications Commission. Most of these stations are issued normal commercial licenses by the FCC. They don't however, operate like any other commercial station. The station owners simply sell blocks of programming time to TV evangelists. At this point the station could care less how many people view the programming because they have received their money up front. The evangelists then come on the air, many times sincerely seeking to spread the message of God's love. Slowly but surely as the months continue, and the evangelists have to continue to pay for that block of time, their message becomes less and less one of truth and more and more a message of appeal to keep the program on the air.

In 1976 I hosted a talk-show on a station owned by the Jimmy Swaggart Evangelistic Association. The station had an overall 0.1 share of the audience in the Dallas/Ft. Worth Metroplex. The program I hosted, within 60 days had an 8.6 share and was then cancelled by the Swaggart organization because it was "too successful". Station manager Gregg Gray said "The program was taken off the air because it was at odds with the philosophy of Swaggart Broadcasting. The whole idea behind Christian media is not to build an audience, but to sow the Word", Gray said. "But more importantly, don't turn off the people who are supporters (financially). Don't do anything to rock the boat and make waves with the supporting audience."

This admission that they did not want to build an audience and that their only purpose was to not upset their donor pool is symptomatic of the entire spectrum of Television evangelists in America today. This is in truth not broadcasting, it is narrow casting, and therefore cannot possibly meet "the community standards" section of the Federal Communications Commission code.

The spiritual abuse perpetrated by these evangelists should be obvious to everyone. The Apostles taught that any visiting evangelist who appealed for money should be shunned as a false prophet. Jesus' example was that a minister should make no more money than the poorest member of his congregation. With nothing to hide or protect, Christians should have no qualms about obeying the laws of the land.

Probably the single greatest evil perpetrated by the Television Evangelism Industry is that they have done what the Fathers of Faith would have considered impossible. These men have succeeded in making the God of this Universe boring to the great majority of the American people.

With some of these men, such as Pat Robertson, trying to expand their influence politically, the time is overdue for the Congress and local authorities to teach them a much needed spiritual lesson by requiring enforcement of laws that are already on the books.

> "There is a famine in your land, but not of bread, it is a famine of truly hearing the word of God. Yet you say I am with you, but lo I am not, for I have long since fled the staleness and hypocrisy of your systems, and like the wind I blew past your ways and your methods, for I will not be bound by the ways of the fallen creature. My ways are not your ways. Learn from this, and become wise in the wisdom from above."

Thank you for this time to present our views.

Testimony before the
House Ways and Means
Oversight Subcommittee
Washington, D.C.
Oct. 6, 1987

By:
Ole Anthony, President
with
John Rutledge, Vice President
Trinity Foundation, Inc.
5634 Columbia
Dallas, TX 75214
(214) 827-2625

TRINITY FOUNDATION, INC.

TRINITY FOUNDATION FACT SHEET

Trinity Foundation traces its origins to November 1972, when it was conceived as a public, non-profit organization serving primarily as a mass-media "watchdog". Its purpose, then as now, is to monitor the mass-media and to research, develop and produce new programs for these media that reveal the hypocrisy, inaccuracy and in most cases, outright deception of modern religion as well as the futility of modern humanist philosophies.

Trinity Foundation is in a unique position to serve both the religious community and the public. It has often found itself cutting against the grain of religious opinion with its call for total honesty, as well as stirring public debate by its uncompromising examination of modern value systems.

Despite some raised eyebrows at the viability of a foundation that is both "religious" and "public", Trinity Foundation, in its fourteen years of existence, has served both concerns well.

1. Trinity Foundation was formally chartered as a Texas non-profit corporation in January of 1973. The foundation is deemed to be a public charity for federal tax purposes, under sections 501(c)(3) and 509(a)(1) of the Internal Revenue Service Code.

3. Trinity Foundation is the only public religious foundation in America. The board of directors is elected by the members. All books and financial records are open to the public.

4. There are presently more than 500 general members in the foundation. These members are from numerous states and countries, but primarily from the Dallas/Ft. Worth metroplex. They are from all denominations and all walks of life. There are approximately 175 active voting members.

5. A radio talk-show entitled "One Trinity Place" was aired for about two years and consisted of interviews with numerous world leaders talking about their walk with God in a totally honest format. It was named the best program of its kind by the NRB. There were approximately 500 hours of programming on "One Trinity Place."

6. "Cross Fire," a book that presented the most interesting interviews from "One Trinity Place," was published by Logos International. International sales were over 500,000 copies.

7. Trinity Foundation has acted as communications arm for many organizations, including Wycliffe Bible Translators and Dallas Theological Seminary.

8. Trinity Foundation has worked with numerous other organizations to help them communicate their activities to the public and to help them deal with local and federal government agencies. These include The House of Faith, Boys Valley Ranch, Jericho House, The High Flight Foundation, Go Tell International and others.

9. Speeches have been given in Washington, D.C., Florida, Michigan and elsewhere to the National Religious Broadcasters Conventions as an instrument of challenging them to upgrade religious broadcasting. Appearances have also been made on several national radio and television programs encouraging total honesty in matters of the spirit.

10. Trinity Foundation has been a consultant to the Metroplex Cable Television Commission to ensure that the spiritual life of the metroplex is considered.

P.O. Box 33 • Dallas, Texas 75221 • (214) 827-2825

Trinity Foundation Fact Sheet, page 2

11. The foundation has been a consultant to the Dallas Department of Consumer Affairs on a program to further upgrade religious broadcasting in the metroplex.

12. In conjunction with the American Research Bureau (ARB), Trinity Foundation has completed an in-depth survey of the effectiveness of religious broadcasting in the Dallas/Ft. Worth market. Questionnaires recorded data on every religious program on all stations.

    The foundation utilized the information from ARB to generate an accurate listening audience estimate. The study found less than one-half of one percent audience penetration by religious broadcasters. The foundation is continuing this survey and it will be updated from time to time.

13. In the past Trinity Foundation has acted as a consultant to radio and television stations nationwide; it had a division that helped religious organizations raise capital for building programs. Except for very basic expenses, Trinity Foundation now has no paid staff members. Most of the work if voluntary.

14. One of the long-range goals of Trinity is to serve as a depository foundation, taking advantage of recent tax law changes regarding private foundations and charitable trusts. We hope to offer selective funding assistance to other communications projects.

15. The active voting members of the foundation, discussed earlier, make up a fellowship group that meets daily.

16. For the past fourteen years, Mr. Ole Anthony has served as President of Trinity Foundation. In that capacity, he chairs a nightly public forum for the exchange of ideas and dialogue. His extensive study of Yoga, the Vedas, the Tibetan and Egyptian Books of the Dead, The Zohar, The Talmud, The Midrash, The Torah, The New Testament Writings and Early Church Fathers stands him well as he "takes on all comers" in the destruction of pre-conceived thought patterns and the freeing of captive minds.

17. The Board of Directors for 1987 is:

    Ole Anthony, President
    John Rutledge, Vice President
    Gary Buckner, Treasurer
    Harry Guetzlaff, Director
    Doug Duncan, Director
    John Bloom, Director
    Charlie Griffith, Director

TRINITY FOUNDATION, INC.

OLE ANTHONY - PRESIDENT, TRINITY FOUNDATION, INC.

Ole Anthony is in his fourteenth year of exposing the "Experts." Whether on television or radio, in books or articles, speaking to groups or individuals; his skillful questioning and inescapable logic, gained from a classical education in the scientific method and over a decade as an operative for Air Force Intelligence, cut to the heart of his adversaries and display their contents for what they are...true or false.

He has received two special Presidential citations, taken a radio station with a 0.1 rating to an 8.6 in 60 days, made and lost a fortune, produced network television and feature films, helped elect a Texas Senator and a Dallas Mayor, sold over 500,000 copies of his first book, been fired by evangelist Jimmy Swaggart and serves as personal spiritual advisor to Joe Bob Briggs; the free world's only drive-in movie critic.

Anthony is a 48 year old native of Wickenburg, Arizona. After a somewhat checkered high school career which ranged from honor student and Eagle Scout to expulsion for refusing to capitalize the word God and arrest for an Easter sunrise cross-burning, he was recruited by Air Force Intelligence. A young man with a genius-level I.Q. and an unquenchable desire to "win the game" without necessarily "playing by the rules" was just what they needed to create worldwide monitoring systems for the surveillance of nuclear weapons activity of foreign powers. His undergraduate education was in geophysics. Later stints at the S.M.U. School of Law and the Harvard Business School prepared him for the worlds of politics and business.

During the first half of the sixties, Anthony was with Teledyne, developing long-range planning and budget controls. He evaluated possible corporate acquisitions and doubled as corporate hatchet man. The balance of the decade was devoted to his own off-shore oil exploration company, Ocean Resources Incorporated wherein a fortune was made and then lost due to the vagaries of Federal Legislation.

The seventies saw Anthony as producer of an Orson Welles network television special, producer of a Glen Ford western feature film, coordinator of the USA Film Festival, management representative for Arnold Palmer and Jack Nicklaus and Chairman of the Finance and Steering Committees that got Wes Wise elected mayor of Dallas. Earlier, Anthony had acted as campaign manager for Senator John Tower, worked for the Republican National Committee training candidates in campaign strategy and effective use of the media and stood as candidate for the Texas Legislature.

Anthony has also been News Director, Anchor Man and Talk-Show Host at channel 33; acted as a consultant to the Dallas Cable Television Commission and the Dallas Department of Consumer Affairs; hosted a talk-show on KMGC and guest-hosted on WRR. In 1977, he produced and hosted a confrontational talk-show on 95 FM, which pulled an 8.6 on a station that had 0.1 over-all share. Guests included Presidents Reagan, Ford, and Nixon, as well as Angela Davis, Ross Perot, Dean Martin, Frank Sinatra, etc., etc., etc. Station owner Jimmy Swaggart canceled the show because it "produced too many listeners" and "too much controversy."

For the past fourteen years, Anthony has served as President of Trinity Foundation, Inc., a public non-profit communications foundation. In that capacity, he chairs a nightly public forum for the exchange of ideas and dialogue. His extensive study of Yoga, the Vedas, the Tibetan and Egyptian Books of the Dead, The Zohar, The Talmud, The Midrash, The Torah, The New Testament Writings and Early Church Fathers stands him well as he "takes on all comers" in the destruction of pre-conceived thought patterns and the freeing of captive minds.

In his spare time, Anthony is writing three books simultaneously. Foremost among these is Hostage, Three Seconds to Die; the novelization of his ordeal as a hostage in Beirut, Lebanon.

P.O. Box 33 • Dallas, Texas 75221 • (214) 827-2625

A STUDY

OF

THE CHRISTIAN BROADCASTING NETWORK'S

COMPLIANCE WITH U.S. TAX LAWS

FOR

TAX EXEMPT ORGANIZATIONS

COMPILED

BY

KATHERINE YURICA

FROM THE NEW MESSIAHS BY KATHERINE YURICA

AND

SUBMITTED TO THE SUBCOMMITTEE ON OVERSIGHT

U.S. HOUSE OF REPRESENTATIVES

FOR FURTHER INFORMATION CONTACT:

Katherine Yurica
(206) 733-1483

October 6, 1987

TO THE HONORABLE J. J. PICKLE, CHAIRMAN

SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

COMES NOW KATHERINE YURICA AND SAYS: I hereby submit the following statement for inclusion in the printed record of the hearings held by the Subcommittee on Oversight on October 6, 1987.

During the summer of 1987, I conducted a study in response to informal inquiries from the Oversight committee's staff in order to verify whether or not certain radio and television ministries were violating their tax-exempt status by devoting a substantial amount of their time to grass roots political appeals, including endorsements of candidates as well as making political expenditures as defined by Section 527 of the IRS Code. The information for the study was derived from the original research data compiled for my book, **The New Messiahs**.

The study reveals information that I believe congress and the American people should be made aware of regarding the abuse of tax laws by some politically active 501 (c) (3) television and radio organizations. I am submitting this material for myself alone, as an author and researcher, and I do not represent any other person or organization.

Although this study focuses on the Christian Broadcasting Network (CBN) as it was run by Marion G. (Pat) Robertson, it has been my experience in the course of more than six years of research that there are a number of tax exempt religious organizations that use their broadcast networks in a similar manner: that is, they do not operate exclusively for religious, charitable or educational purposes as the law requires, but instead have used their broadcasts to promote candidates and nominees for office and have devoted a substantial part of their time engaged in political grass roots appeals and lobbying. In fact, it has been my observation that in addition to CBN, other politically active 501 (c) (3) ministries have functioned as quasi-political organizations while claiming to be exclusively organized for religious purposes and have, at least in the case of CBN, denied their political and grass roots expenditures on their income tax returns. This is of course in violation of the prohibitions and restrictions imposed upon such organizations by the Internal Revenue Code.

I do not know the steps the IRS usually takes in its investigative capacity. But I assume that the service does in fact have the ability to audit and investigate a tax-exempt organization to verify whether it is operating fraudulently or not, and whether it is falsifying its tax returns. The question my study raises is this: Is the IRS investigating religious groups and auditing them for possible violations of the IRS code that governs their tax-exempt status?

My study is based upon the assumption that in the United States under the Constitution, our laws are applied equally to all men and to all groups and that no one single group or class is above the law. But in the course of my research, I have discovered an inequity. I believe certain religious organizations are escaping tax liability with impunity. In the words of George Orwell, "All animals are equal but some animals are more equal than others."

Let us examine what has been happening. If the Red Cross or some other charitable organization, or for that matter, the pastor and congregation of any church in any town in America decide to make a grass roots appeal to the public in favor or against some particular piece of legislation, they may do so and if they are honest, they will report the amount of money spent on the campaign on their tax return. But they are also limited by the IRS Code on how much they can spend for their appeal, including the cost of media ads, without incurring tax liability. This applies across the board to all 501 (c) (3) organizations; however, if we conclude that a religious broadcaster who makes a similar grass roots appeal by simply incorporating his political "ad" into the format of his show--sometimes under the heading of "news analysis"-- somehow escapes his tax liability and accountability, then we have made two classes of citizens: those for whom the law applies and those for whom the law does not apply.

Let us remember the politically active religious broadcaster is spending money for production costs as well as for the time purchased from radio and television stations just as a legitimate political campaign organization spends money for ads. The difference is that one organization has been held accountable in the past and the other has not.

No new laws need be added to the books to remedy this situation. The present law is clear and fair. **What should be done? It is my recommendation that Congress must require the Internal Revenue Service to enforce the laws.** It's that simple. Perhaps tax-exempt broadcasters should be asked to keep a log of their programs to document the number of minutes they spend on so-called "news analysis" including their appeals for or against legislation and the time spent in praising or denouncing nominees and candidates for office and the time spent on political propaganda in general. The 990 IRS Return of Exempt Organizations already asks the pertinent questions: No. 81. asks, "Enter amount of political expenditures, direct or indirect." Perhaps a line of explanation in the instructions could be added to include a statement that would clearly indicate that political expenditures include the production and time expenditures made on their own shows and in their own publications for or against nominees and candidates.

Similarly, on Schedule A of Form 990, Part III, "Statements about Activities" asks: "During the year have you attempted to influence national, State or local legislation, including any attempt to influence public opinion on a legislative matter or referendum?" Frankly, I don't see how the service could write it any more clearly. Yet I have seen, as the study will show, an organization checking "no," to the question in absolute contradiction to its actual activities. In fact, the study shows that CBN has almost certainly violated its tax-exempt status.

I.

WHAT THE STUDY FOUND

A study released this week indicates that Pat Robertson's Christian Broadcasting Network may have violated the laws governing its tax-exempt status. According to Katherine Yurica, author of the study which covered 85 shows in 1985, CBN spent an estimated $1 million for broadcast time in attempts to influence the passage or rejection of legislation, spent an estimated $148,530 for political expenditures for endorsements of Republican candidates, and spent nearly $600,000 for its television campaign for aid for the Contras that extended from 1985-1986.

Miss Yurica said the study was based upon the transcripts of the 700 Club show that constitute the documentation for **The New Messiahs**, her new book on secular fundamentalism. "There is strong evidence," Miss Yurica said, "that the 700 Club has not operated exclusively for religious, charitable or educational purposes as the law requires. Instead, it has devoted a substantial amount of its broadcast time to partisan political propaganda."

The study also shows that CBN contributed $2 million in cash to Americares Foundation, for "humanitarian aid for displaced persons of Central America" in 1985. Among the several charities Americares distributed medical supplies and cash to, its 1985 tax return shows that it delivered $291,383 in medical supplies and $5,750 in cash to Mario Calero who was involved in buying supplies for the Contras and who is the brother of Contra leader, Adolfo Calero.

II.

THE STUDY

According to its articles of incorporation and its application for tax exemption, the Christian Broadcasting Network (CBN) was organized as a non-profit religious corporation for the purpose of "bringing glory to Almighty God" by among other things--"each of which must be exclusively for religious and for no other purposes"--owning and operating radio and television stations and producing and broadcasting "religious truth." The 700 Club is listed on CBN's 990 income tax forms as the "primary television program produced" by the organization.

Marion G. (Pat) Robertson has been the host of the 700 Club as well as serving as the chief executive officer of the corporation for the periods this report studies. However, because of his quest for the 1988 Republican nomination for president, Robertson, has recently turned over the reins of CBN to his son, Tim, and the responsibility for hosting the 700 Club has fallen upon Ben Kinchlow, and until her mysterious absence from the show in the spring of 1987, Danuta Soderman. Nevertheless, Robertson still makes appearances on the show, and still controls the Board of Directors. Because of Robertson's dominant role in the organization and because both Tim Robertson and Ben Kinchlow are also officers of the corporation as well as board members, and because the three men plus Danuta Soderman have acted as hosts or co-hosts, we deemed that statements made by these principals represented the views of CBN.

Beginning in the spring of 1985, I and my assistant began taping the 700 Club shows and transcribing the political portions as documentation for **The New Messiahs.** We have so far accumulated over 1300 pages of transcriptions bound in seven volumes. This report focuses on a careful analysis of 85 shows in 1985, plus an analysis of the transcripts for evidence of endorsements of candidates which represented political expenditures affecting the tax returns of CBN for 1984, 1985 and 1986. We also studied the transcripts for propaganda pieces promoting aid to the Contras.

Allowing an average of 2.5 minutes per transcribed page, we were able to estimate the amount of time devoted on the 700 Club to propaganda and attempts to influence the opinions of the public on legislation, elections, appointments, and administration objectives. In some instances we used an average time of four minutes for film clips that were summarized in our transcripts unless the piece was timed at the time of its original taping and the results recorded. Our aim was to be as conservative and as objective as possible.

The estimated expenditures were based on CBN's 1984 income tax return (Form 990), which showed the cost of air time for the 700 Club, plus production costs to be $53,885,198 for the year. Since CBN broadcast 260 700 Club shows in a year, the cost per show was calculated to be $207,250.76 or $3,454.18 per minute.

Many critics have charged that CBN has violated its tax exempt status because of Mr. Robertson's channeling money from CBN to the Freedom Council in Michigan, where he was seeking the election of delegates who would determine Michigan's choice for the Republican nomination for president. However, our study sought to examine the show's contents to see if there was evidence that CBN violates the "operational test" of Section 501 (c) (3) of the IRS Code. We have concluded that evidence does in fact exist that tends to show that CBN has failed the operational test: The 700 Club has not operated exclusively for religious, charitable or educational purposes. Instead, it has devoted a substantial amount of its broadcast time to political propaganda in attempts to influence the passage or rejection of legislation, and it has spent hundreds of thousands of dollars on political expenditures endorsing Republican candidates and nominees for office on the show.

What is worse, in our judgement, we found evidence that CBN did not report political expenditures to the IRS. In fact, it denied it had any. Moreover, if CBN had elected to apply subsection (h) of Section 501 of the IRS Code, which allows a 501 (c) (3) organization to spend a limited amount for grass roots appeals, it is our opinion, that CBN would not only have owed taxes for exceeding the grass roots nontaxable amount allowable each year, but we believe, based upon our calculations, there is evidence that CBN made grass roots expenditures in excess of the grass roots ceiling amount and therefore may have lost its tax exempt status.

Our study focused on three major IRS Code laws found in Sections 501, 4911, and 527 and accompanying regulations. We used five principles derived from those laws and regulations as a guide for our study:

> 1. A religious, charitable organization such as CBN may not endorse or oppose candidates or otherwise intervene in elections. If it does so, it loses its tax exempt status.
>
> 2. Reports that are partisan, politically biased and deficient in fairness or based upon unsupported opinion that do not permit the public to form an independent opinion or conclusion are propaganda pieces and not educational.
>
> 3. No substantial part of CBN's broadcasting may consist of political propaganda or otherwise consist of attempts to influence the public on legislation.
>
> 4. As a guide to what constitutes a "substantial" amount spent on attempts to influence legislation, the law provides for a maximum ceiling amount for lobbying at $1.5 million and the maximum ceiling amount for attempts to influence legislation through attempts to affect the opinions of the general public to be $375,000 a year. (We believe that organizations that do not elect subsection (h) of 501, cannot logically or fairly be allowed to spend in excess of those ceiling amounts imposed upon 501 (h) electors.)
>
> 5. Any political expenditure of more than $100 must be reported and will be taxed. (Section 527) A political expenditure is defined as one intended to influence the selection, nomination, election, or appointment of anyone to any public office or office in a political organization or the election of Presidential electors and includes the giving of anything of value. (We concluded that the giving of television time promoting the election or appointment of candidates or nominees for political office, constituted a thing of value.)

With these five rules in mind, we began to compile data from the 700 Club transcripts. The study of 85 shows in 1985 reveal an astonishing partisan bias: Only conservatives and Republicans were routinely praised. Liberals, Democrats and even moderate Republicans were castigated and their views of issues were rarely aired. Typically, only one side of an issue was presented, and often the show relied upon base emotional appeals to move people to support Mr. Robertson's favored political positions.

The study also shows that in 85 hours of the show, a total of six hours was devoted to grass roots appeals for legislation, which amounts to seven percent of the 700 Club's broadcast time. The figures speak for themselves: $1 million for grass roots appeals for legislation and $148,530 for endorsements of candidates, making a total spent of $1.1 million for grass roots appeals. And this was only 85 of the 260 shows broadcast in 1985. We believe that there is ample evidence presented here that tends to prove that CBN has not only violated its tax exempt status, but has violated the trust of the people.

Another study shows that CBN spent nearly $600,000 for its television campaign for aid for the Contras, which does not include the cost of flying television crews down to Central America for filming. Moreover, CBN contributed $2 million in cash to Americares Foundation, another 501 (c) (3) charitable organization, in 1985, purportedly for "humanitarian aid for the displaced persons of Central America." However, Americares' 1985 tax return shows that it delivered $297,133 in medical supplies and cash to Mario Calero who was involved in buying supplies for the Contras and who was the brother of Contra leader, Adolfo Calero. (CBN's connection with the Contra cause and with the White House is outlined in a report titled: **Pat Robertson, The White House, and the Contras.**)

In another "Preliminary Study" of CBN's endorsements of candidates and nominees for office that covers tax returns for 1984, 1985, and 1986, the total political expenditures are estimated to be $371,324 for a total of 107.5 minutes of political features.

Let me conclude by saying that it is difficult to make judgment calls on every show studied. We did our best, relying on common sense and the certain knowledge that there are so many instances of grass roots appeals and political endorsements in the two years covered by our transcripts, that our time and expense estimates, if conservative, would also be more than fair.

III.

POLITICAL ANALYSIS OF 85 700 CLUB SHOWS IN 1985

SUMMARY:

$1 million for grass roots appeals for legislation
$148,530 for political expenditures

There were 85 of 1985's shows that were analyzed. Political issues were discussed on 62 shows.

Of these political issues, we deemed that 21 were strictly conservative causes and that none were liberal causes.

Significantly, liberals were castigated five times and conservatives were specifically praised twice.

Democrats were denigrated 12 times, praised twice, and referred to neutrally once.

Republicans, on the other hand, were praised 25 times; however, 6 specific Republicans were criticized for not voting with the administration [show # 67], and once, 19 Republicans, who were not named, were criticized for "liberalism," and one mention was neutral.

There were 46 appeals for grass roots support to influence the passage or defeat of legislation or for support or defeat of candidates. Of these, 40 appeals were for grass roots support for or against legislation, including 17 contra-aid campaign appeals and five other appeals that advocated a position without specifically requesting the audience to call their congressman. Twenty-five appeals were for legislation and 15 were against certain legislation. Show Nos. 16, 17, 18, 19, 20, 24, 25, 30, 37, 38, 40, 42, 46, 47, 48, 49, 50, 52, 65, 77, 78, 79, and 83 had appeals for legislation. And show Nos. 7, 11, 15, 30, 37, 52, 58, 59, 66, 70, 74, 76 and 81 had appeals made against certain legislation.

There were 6 endorsements of Republican candidates or office holders, including one endorsement of a political action committee. There was one grass roots appeal to "oust all current office holders," and there was one appeal for support for an official who had resigned under fire. There were no endorsements of Democrats.

Congress was castigated on 22 shows, was referred to neutrally twice and was never praised. The press was also castigated 9 times and was never praised and in one of these instances, a large portion (13.25 minutes) of the show was devoted to an anti-press theme.

There were 334.25 minutes devoted to grass roots appeals for legislation including approval of Republican candidates for a total expenditure to CBN of $1.1 million. However, of the $1.1 million, $1 million was for grass roots appeals for legislation. In addition, there was another 11.25 minutes devoted to a conservative cause presented by a guest that was not necessarily deemed an endorsement by CBN, plus a five minute endorsement of a Republican office holder that was omitted from the list of candidate endorsements because his five year term had just begun to run, but which nevertheless, represented expenditures of $56,130.43, which brings the total analyzed expenditures to $1.2 million.

There was a total of 43 minutes on four shows that were deemed to be political expenditures and endorsements for candidates under Section 527 of the IRS code for a total of $148,530. They were:

#6	7.5 minutes	Rick McIntyre [R.]	$25,906
22	7.5	Rick McIntyre	25,906
22	8.0	Christian Unity PAC	27,633
59	5	Pat Swindall [R.]	17,271
75	5	Pat Swindall	17,271
75	10	Herb Ellingwood	34,542
			$148,530

Another 14.5 minutes and $50,085 expenditure was made on the No. 50 show in behalf of Don Devine, the head of the U. S. Personnel Agency, who had resigned under fire. Additionally, on the show No. 67, Robertson singled out the following senators for not voting with the administration on specific measures: Senators Ted Stevens, Charles Mathias, Arnold Spectre, Mark Hatfield, Lowell Weicker, and

Robert Packwood. He also pointed out that Senators Alfonse D'Amato, Charles Grassley, Bob Packwood, Arnold Spectre and Charles Mathias were up for re-election in 1986. Robertson spent 10 minutes or $34,541.80 on the topic, calling for the president to play "hard ball" with the wandering "liberal" senators.

There was a total of 122.5 minutes devoted on 17 shows to the Contra cause, with grass roots appeals for support of congressional legislation for military and humanitarian aid to the rebels and for one appeal against a bill prohibiting private aid to the Contras [HR. 1569]. The total expenditure, which does not include the cost of flying CBN's crew to Central America and the cost of the extensive shooting of film there, was $423,137.

CBN was against the following legislation:

7 Government assistance to failing banks
11 Bill prohibiting private aid to Contras [HR 1569]
15 UDAC grants for "Hilton Hotels"
30 Rumania's "most favored trade nation status"
37 Manhattan "Westways" highway
37 Two percent floor on charitable deductions
52 The Clarke Amendment
58 U.S. contributions to the U.N. F.P.A. fund
59 Illinois state bill for compulsory education
66 U.S. foreign aid to communist regimes
67 Sanctions against South Africa
70* Medicare and Medicaid
74 The Civil Rights Restoration Act of 1985
76 Government deficit spending
81 Sanctions and disinvestment against South Africa

* omitted from some totals

CBN was for the following legislation:

16 Balanced budget amendment
17 $14 million military aid to Contras
18 " "
19 " "
20 Budget cuts proposed by Mr. Reagan
24 President's assistance to Contras
25 Administration's policy in Central America
30 Humanitarian aid to the Contras
37 A 100% increase for family exemptions
38 $27 million humanitarian aid bill to the Contras
40* President's tax plan
42 Aid to the Contras
46 School prayer bill
47 Aid bill to the Contras
47 School prayer bill
48 Aid to the Contras
49 $27 million humanitarian aid bill to the Contras
50 Aid to the Contras
52 U.S. policy aid to the freedom fighters
65 U.S. policy to overthrow the Sandinistas
65 Line item veto bill
77 Privatization of Social Security
78 U.S. policy to overthrow the Sandinistas
79 U.S. policy to defend against Sandinista threat
83 Secretary Bennet's voucher system for education

*omitted from some totals

IV.

CBN'S CONTRA AID TV CAMPAIGN

SHOW NO.	DATE	EST. MINUTES	EST. AMOUNT
11	April 2, 1985	2.5	$ 8,635.45
17	April 16, 1985	3	10,362.54
18	April 17, 1985	5	17,270.90
24	April 30, 1985	7.5	25,906.35
25	May 1, 1985	2.5	8,635.45
30	May 8, 1985	2	6,908.36
38	May 24, 1985	7.5	25,906.35
42	May 30, 1985	10	34,541.80
47	June 7, 1985	5	17,270.90
48	June 11, 1985	5	17,270.90
49	June 12, 1985	30	103,625.40
50	June 13, 1985	15.5	53,539.79
52	June 20, 1985	12.5	43,177.25
65	July 19, 1985	2	6,908.36
66	July 22, 1985	1	3,454.18
78	August 15, 1985	4	13,816.72
79	August 21, 1985	7.5	25,906.35
SUB TOTALS:		122.5	$423,137.05
	December 10, 1985	10	34,541.80
	February 19, 1986	5	17,270.90
	March 6, 1986	2.5	8,635.45
	March 12, 1986	13.5	46,631.43
	March 17, 1986	5	17,270.90
	March 18, 1986	2	6,908.36
	March 20, 1986	11	37,995.98
TOTALS:		171.5	$592,391.87

Note: The estimated time is based on an average of 2.5 minutes per transcribed page unless material was omitted. The estimated expenditures are based on CBN's 1984 income tax return which showed the cost of air time plus production to be $207,250.76 per show or $3,454.18 per minute. However, the total expenditures do not include the cost of flying CBN's crew to Central America.

In conclusion, may I say that this entire study will be included in my book, The New Messiahs.

Respectfully submitted,

Katherine Yurica